NURUL YATIRIM BANKASI
ANONİM ŞİRKETİ

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2011

Deloitte.

DRT Bağımsız Denetim ve
Serbest Muhasebeci
Mali Müşavirlik A.Ş.
Sun Plaza
Bilim Sok. No:5
Maslak, Şişli 34398
İstanbul, Türkiye

Tel : +90 (212) 366 6000
Fax : +90 (212) 366 6010
www.deloitte.com.tr

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Nurol Yatırım Bankası Anonim Şirketi

1. We have audited the accompanying financial statements of Nurol Yatırım Bankası Anonim Şirketi ("the Bank"), which comprise the statement of financial position as of 31 December 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management responsibility for the financial statements

2. Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

   We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Deloitte.

Basis for Qualified Opinion

5. As of 31 December 2009, the Bank has a total of TL 6,950 Thousand of investment incentive exemption from financial leasing operations for prior periods. TL 4,912 Thousand of the related exemption has investment certificate and the remaining TL 2,038 Thousand has no investment certificate. Investment incentive exemption was ceased in accordance with Law no: 5479 and it was published in the Official Gazette No: 26133 on 8 April 2006, and Provisional Article No: 69 of Income Tax Law No: 193 only permits to offset investment incentives against earnings solely attributable to the periods related to 2006, 2007 and 2008 under Repealed Article 19 of Income Tax Law No: 193. Upon the Constitutional Court's resolution E: 2006/95 issued on 15 October 2009, Paragraph (b) of the Provisional Article No: 69 of Income Tax Law No: 193, which requires the offsetting against the earnings solely for the periods related to 2006, 2007 and 2008 has been annulled. By this way, time limitation imposed on vested investment incentives is revoked. The Constitutional Court's resolution has become effective as of 8 January 2008 upon the issuance in the Official Gazette. In order to be conservative, the Bank did not recognize any deferred tax asset over the investment incentive exemption as of 31 December 2009 but has recognized the related deferred tax asset in the financial statements as of 31 December 2010, upon the issuance of the resolution in the Official Gazette. If TL 2,038 Thousand of investment incentive exemption with no investment certificate of which the Bank anticipates to use it for future tax advantage were included in deferred tax base for the year ended 31 December 2009, rather than the year ended 31 December 2010, the Bank's profit would be decreased by TL 407 Thousand and retained earning would be increased by TL 407 Thousand as of and for the year ended 31 December 2010.

Qualified Opinion

6. In our opinion, except for the comperative effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements give a true and fair view of the financial position of the Bank as of 31 December 2011 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw your attention to the following matter:

7. As indicated in Note 26, the Bank has performed the significant portion of its banking transactions with the related party firms (Nurol Group) as of the balance sheet date.

DRT Bağımsız Denetim ve SMMM A.Ş.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.

Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Istanbul, 12 April 2012

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Statement of Financial Position

As of 31 December 2011

(Currency - In thousands of Turkish Lira)

	Note	31 December 2011	31 December 2010
Assets			
Cash and cash equivalents	*4*	13,602	51,314
Reserve deposits at Central Bank	*5*	3,727	10,508
Held for trading investments	*6*	5,866	1,092
Available for sale investments	*7*	27,714	20,560
Loans and advances to customers	*8*	116,923	119,419
Property and equipment	*9*	646	650
Intangible assets	*10*	536	544
Investment property	*11*	-	10,320
Deferred tax assets	*16*	260	980
Other assets	*12*	18,510	1,669
Total assets		**187,784**	**217,056**
Liabilities			
Funds borrowed	*13*	111,960	156,670
Other liabilities	*14*	1,572	2,982
Derivative financial instruments		176	-
Provisions	*15*	2,383	978
Current tax liabilities	*16*	218	-
Total liabilities		**116,309**	**160,630**
Equity			
Share capital	*18*	45,000	45,000
Reserves	*18*	8,125	6,191
Retained earnings		18,350	5,235
Total equity		**71,475**	**56,426**
Total liabilities and equity		**187,784**	**217,056**

The accompanying notes are an integral part of these financial statements.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ

Statement of Comprehensive Income
For the year ended 31 December 2011
(Currency - In thousands of Turkish Lira)

	Note	1 January-31 December 2011	1 January-31 December 2010
Interest income	*19*	11,526	10,699
Interest expense	*19*	(5,578)	(5,669)
Net interest income		**5,948**	**5,030**
Fee and commission income	*20*	3,066	2,974
Fee and commission expense	*20*	(751)	(337)
Net fee and commission income		**2,315**	**2,637**
Net trading income / (loss)	*21*	1,864	976
Other operating income	*22*	14,042	1,011
		15,906	**1,987**
Operating income		**24,169**	**9,654**
Net impairment recoveries / (loss) on financial assets	*8*	1,547	(1,377)
Other provision expenses	*8*	(1,347)	-
Personnel expenses	*23*	(4,133)	(3,929)
Depreciation and amortisation	*9,10,11*	(806)	(293)
Administrative expenses	*24*	(5,443)	(4,537)
Profit before income tax		**13,987**	**(482)**
Income tax benefit / (expense)	*16*	(872)	511
Profit from continued operations		**13,115**	**29**
Income from discontinued operations		-	-
Income tax provision from discontinued operations		-	-
Profit from discontinued operations		-	-
Profit for the year		**13,115**	**29**
Other comprehensive income			
Available-for-sale financial assets			
Gains(Loss) arising during the year		11,707	1,133
Less: Reclassification adjustments for gains included in profit or loss		(6,425)	24
Income tax relating to components of other comprehensive income	*16*	(3,348)	615
Other comprehensive income for the year, net of income tax		**1,934**	**1,772**
Total comprehensive income for the year		**15,049**	**1,801**

The accompanying notes are an integral part of these financial statements.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ

Statement of Changes in Equity
For the year ended 31 December 2011

(Currency - In thousands of Turkish Lira)

	Note	Share capital	Adjustment to share capital	Fair value reserve of available for sale financial assets	Legal reserves	Accumulated gain/(losses)	Total equity
Balances at 1 January 2010		45,000	-	3,755	664	5,206	54,625
Total comprehensive income for the year							
- Profit for the year		-	-	-	-	29	29
Other comprehensive income for the year, net of tax	*18*	-	-	1,772	-	-	1,772
Total other comprehensive income		-	-	1,772	-	-	1,772
Total comprehensive income for the year		-	-	1,772	-	29	1,801
Balance at 31 December 2010		45,000	-	5,527	664	5,235	56,426
Balances at 1 January 2011		45,000	-	5,527	664	5,235	56,426
Total comprehensive income for the year							
- Profit for the year		-	-	-	-	13,115	13,115
Other comprehensive income for the year, net of tax	*18*	-	-	1,934	-	-	1,934
Total other comprehensive income		-	-	1,934	-	-	1,934
Total comprehensive income for the year		-	-	1,934	-	13,115	15,049
Balance at 31 December 2011		45,000	-	7,461	664	18,350	71,475

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows
For the year ended 31 December 2011
(Currency - In thousands of Turkish Lira)

	Note	1 January-31 December 2011	1 January-31 December 2010
Cash flows from operating activities			
Net profit for the year		13,115	29
Adjustments:			
Depreciation and amortisation		806	293
Current tax provision	16	218	-
Deferred tax	16	654	(511)
Provision for loan losses	8	113	1,424
Other provisions		2,826	556
Accrual on derivative instruments		176	-
Other accruals		(881)	2,253
Foreign exchange gain		(4,149)	1,176
Gain on sale of investment property		(6,235)	-
Other		(607)	-
Gain on sale of available for sale		(8,646)	-
		(2,610)	**5,220**
Changes in operating assets and liabilities			
Change in held for trading investments		(4,747)	2,461
Change in loans and advances to customers		1,743	(24,331)
Change in reserve deposits		6,781	192
Change in other assets		(240)	863
Change in other liabilities		(2,831)	(965)
Change in borrowings		(44,614)	41,369
Net cash provided by / (used in) operating activities		**(46,518)**	**24,809**
Cash flows from investing activities			
Purchase of available for sale investments		(94,842)	(9,146)
Proceed from sale of available for sale investments		99,663	9,749
Purchase of investment property		(354)	(61)
Purchase of property and equipment	9	(263)	(333)
Proceeds from sale of property and equipment		86	-
Proceeds from sale of investment property		654	-
Purchase of intangible assets	10	(290)	(496)
Net cash used in investing activities		**4,654**	**(287)**
Net cash provided by financing activities		**-**	**-**
Effect of foreign exchange rate change on cash and cash equivalents		4,149	(1,176)
Net increase / (decrease) in cash and cash equivalents		**(37,715)**	**23,346**
Cash and cash equivalents at 1 January		51,311	27,965
Cash and cash equivalents at 31 December		**13,596**	**51,311**

The accompanying notes are an integral part of these financial statements.

(Currency - In thousands of Turkish Lira)

1. Corporate information

General

Nurol Yatırım Bankası AŞ (the "Bank" or "Nurolbank") was established in 1998 by the permission of the council of Ministers Decree No. 98/11565 dated 6 August 1998, to finance investment and foreign trade activities, and started its financial banking activities in May 1999. Nurolbank is owned and controlled by the Nurol Holding AŞ. Nurolbank operates as an investment bank and is also involved in corporate services such as financial leasing, lending and trade finance. According to the current legislation for investment banks, the Bank is not authorised to receive deposits from customers. The Bank's head office is located at Nurol Plaza in Maslak in Istanbul, Turkey.

The shareholders' structure of the Bank is as disclosed below:

Shareholders	Total nominal value of the shares	Share percentage (%)
Nurol Holding A.Ş.	35,171	78.16
Nurol İnşaat ve Tic. A.Ş.	7,182	15.96
Other	2,647	5.88

The shareholder having direct or indirect control over the shares of the Parent Bank is Nurol Group. The Group has operations in construction, defence, finance, tourism, health, mining, real estate, marketing and manufacturing industries through 22 firms within the Nurol Group and 30 domestic-foreign associates and subsidiaries.

The Board of Directors comprised the following members:

Nurettin Çarmıklı	*Chairman*
Erol Çarmıklı	*Deputy Chairman of Board*
M. Oğuz Çarmıklı	*Deputy Chairman of Board*
Dr. Ahmet Paşaoğlu	*Board Member*
S. Ceyda Çarmıklı	*Board Member*
Talat Saral	*Board Member (Audit Committee Member)*
Yusuf Serbest	*Board Member*
Prof Dr. Dursun Ali Alp	*Board Member (Audit Committee Member)*
Pınar Cengiz	*Board Member – General Manager*
Ahmet Kerim Kemahlı	*Board Member*

2. Adoption of New and Revised Standards

2.1 New and Revised IFRSs affecting presentation and disclosure only

There is no standard or interpretation that affects presentation and disclosures related with the financial position of the Bank.

2.2 New and Revised IFRSs affecting the reported financial performance and / or financial position

There is no standard or interpretation that affects the reported results or the financial position of the Bank.

2.3 New and Revised IFRSs applied with no material effect on the financial statements

Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010)

The amendments to IAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The amendments have been applied retrospectively.

The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

Amendments to IFRS 7 Financial Instruments: Disclosures (as part of Improvements to IFRSs issued in 2010)

The amendment encourages qualitative disclosures in the context of the quantitative disclosure required to help users to form an overall picture of the nature and extent of risks arising from financial instruments. The amendment also clarifies the required level of disclosure around credit risk and collateral held and provides relief from disclosure of renegotiated loans. The amendments have been applied retrospectively.

IAS 24(Revised 2009) ***Related Party Disclosures***

IAS 24 (as revised in 2009) has been revised on the following two aspects: (a) IAS 24 (as revised in 2009) has changed the definition of a related party and (b) IAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities.

2. Adoption of New and Revised Standards *(continued)*

2.3 New and Revised IFRSs applied with no material effect on the financial statements *(continued)*

IAS 32(Amendments) ***Financial Instruments: Presentation*** **and IAS 1** ***Presentation of Financial Statements***

The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments. Before the amendments to IAS 32, rights, options or warrants to acquire a fixed number of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The amendments require retrospective application.

IFRIC 14 (Amendments) Pre-payment of a Minimum Funding Requirement

IFRIC 14 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognized in profit or loss.

Annual Improvements May 2010

Further to the above amendments and revised standards, the IASB has issued Annual Improvements to IFRSs in May 2010 that cover 5 main standards/intepretations as follow: IFRS 1 First-time Adoption of International Financial Reporting Standards; IFRS 3 Business Combinations; IAS 27 Consolidated and Separate Financial Statements; IAS 34 Interim Financial Reporting and IFRIC 13 Customer Loyalty Programmes. With the exception of amendments to IFRS 3 and IAS 27 which are effective on or after 1 July 2010, all other amendments are effective on or after 1 January 2011.

2. Adoption of New and Revised Standards *(continued)*

2.4 New and Revised IFRSs in issue but not yet effective

IFRS 7 Financial Instruments: Disclosures

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The amendments to IFRS 7 require an entity to disclose information about rights of offset and related agreements for financial instruments under an enforceable master netting agreement or similar arrangement. The new disclosures are required for annual or interim periods beginning on or after 1 January 2013.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

IFRS 9 was amended to defer the mandatory effective date of both the 2009 and 2010 versions of IFRS 9 to annual periods beginning on or after 1 January 2015. Prior to the amendments, application of IFRS 9 was mandatory for annual periods beginning on or after 1 January 2013. The amendments continue to permit early application. The amendments modify the existing comparative transition disclosures in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and IFRS 7 Financial Instruments: Disclosures. Instead of requiring restatement of comparative financial statements, entities are either permitted or required to provide modified disclosures on transition from IAS 39 Financial Instruments: Recognition and Measurement to IFRS 9 depending on the entity's date of adoption and whether the entity chooses to restate prior periods.

2. Adoption of New and Revised Standards *(continued)*

2.4 New and Revised IFRSs in issue but not yet effective *(continued)*

IAS 12 Income Taxes

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation – Special Purpose Entities has been withdrawn upon the issuance of IFRS 10. Under IFRS 10, there is only one basis for consolidation, which is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11 ***Joint Arrangements***

IFRS 11 replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 Jointly Controlled Entities – Non-monetary Contributions by Venturers has been withdrawn upon the issuance of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

IFRS 13 ***Fair Value Measurement***

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

2. Adoption of New and Revised Standards *(continued)*

2.4 New and Revised IFRSs in issue but not yet effective *(continued)*

IFRS 12 *Disclosure of Interest In Other Entities*

IFRS 12 requires extensive disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. An entity is required to disclose information that helps users of its financial statements evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on its financial statements. The new standard is mandatory for annual periods beginning on or after 1 January 2013. The Bank does not expect any impact from the adoption of this revised standard.

IAS 27 *Separate Financial Statements* (2011)

The requirements relating to separate financial statements are unchanged and are included in the amended IAS 27. The other portions of IAS 27 are replaced by IFRS 10.

IAS 28 *Investments in Associates and Joint Ventures* (2011)

IAS 28 is amended for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12.

IFRS 13 *Fair Value Measurements*

On 12 May 2011, IASB issued IFRS 13 Fair Value Measurement, which establishes a single source of guidance for fair value measurement under IFRSs. IFRS 13 defines fair value, provides guidance on its determination and introduces consistent requirements for discloures on fair value measurements. The Standard does not include requirements on when fair value measurements is required; it prescribes how fair value is to be measured if another Standard requires it. The new standard is mandatory for annual periods beginning on or after 1 January 2013.

IAS 1 *Presentation of Financial Statements (2011) – Presentation of Items of Other Comprehensive Income*

The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements.

IAS 19 (as revised in 2011) *Employee Benefits*

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions.

2. Adoption of New and Revised Standards *(continued)*

2.4 New and Revised IFRSs in issue but not yet effective *(continued)*

Amendments to IFRS 3 *Business Combinations*

As part of Improvements to IFRSs issued in 2010, IFRS 3 was amended to clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards. In addition, IFRS 3 was amended to provide more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with IFRS 2 Share-based Payment at the acquisition date ('market-based measure').

2.5 Use of estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in note 3.20.

(Currency - In thousands of Turkish Lira)

3. Significant accounting policies

3.1 Statement of compliance:

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Bank maintains its books of account and prepares its statutory financial statements in accordance with Turkish Accounting Standards, Financial Reporting Standards and other regulations on accounting and reporting standards promulgated by the Banking Regulation and Supervision Agency ("BRSA").

The financial statements have been prepared from statutory financial statements of the Bank and presented in accordance with IFRS in Turkish Lira ("TL") with adjustments and certain reclassifications for the purpose of fair presentation in accordance with IFRS.

The accompanying financial statements as of 31 December 2011 are authorised for issue by the management on 12 April 2012. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

3.2 Basis of preparation:

The financial statements have been prepared on the historical cost basis except for the revaluation of financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

3.3 Accounting in hyperinflationary economies

The financial statements of the Bank for the periods before 1 January 2006 were adjusted to compensate for the effect of changes in the general purchasing power of the Turkish Lira based on IAS 29 "Financial Reporting in Hyperinflationary Economies". Turkish Economy is accepted to come off its highly inflationary status as of 1 January 2006. Based on this consideration, IAS 29 has not been applied in the preparation of the financial statements since 1 January 2006. Amounts expressed in the measuring unit current at 31 December 2005 were treated as the basis for the carrying amounts after 1 January 2006.

3.4 Foreign currency transactions

Transactions in currencies other than TL (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Foreign currency differences arising on retranslation are recognised in profit or loss.

Foreign currency translation rates used by the Bank are as follows:

	USD / TL(full)	EUR / TL(full)
31 December 2011	1.885	2.442
31 December 2010	1.490	2.107

3.5 Interest income and interest expense

Interest income and expense are recognised in the profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of financial instrument, but not future credit losses. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

3. Significant accounting policies *(continued)*

3.5 Interest income and interest expense *(continued)*

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income statement include:

- the interest income on financial assets and liabilities at amortised cost on an effective interest rate basis
- the interest income on held for trading investments and available for sale investments.

Interest income is suspended when loans are impaired and is excluded from interest income until received.

3.6 Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission and placement fees are recognised as the related services are performed.

Fee for bank transfers and other banking transaction services are recorded as income when collected.

3.7 Net trading income

Net trading income comprises gains less loss related to held for trading investments and liabilities, and includes all realised and unrealised fair value changes and interest. Any realised or unrealised fair value changes and interest of non-qualifying derivatives, held for risk management purposes, are recorded as foreign exchange gain.

3.8 Dividends

Dividends are recognised when the shareholders' right to receive the payments is established.

3.9 Taxation and deferred income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which are used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

3. Significant accounting policies *(continued)*

3.9 Taxation and deferred income taxes *(continued)*

Deferred tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

Investment Incentives

The phase " ... only attributable to 2006, 2007 and 2008", which was included in the paragraph set out in Provisional Article 69 of Income Tax Law No: 193 is deleted upon the Constitutional Court's resolution no: 2009/144 and the related decision was published in the Official Gazette on 8 January 2010. Investment incentive application was revised based on Article 5 of Law No: 6009, which had been published in the Official Gazette No: 27659 on 1 August 2010. Under the revised law, the investment incentive amount which would be used as a discount in determining the tax basis should not exceed 25% of the related period's profit, only to the extent that it is applicable to profit for the related period, whereas corporate tax would be calculated based on the applicable tax rate over the remaining profit. The requirement stating that deductible investment incentive amount cannot exceed the 25% of annual earnings has been annulled upon the Constitutional Court's decision no:2010/93, K: 2012/9 issued on 9 February 2012. The full annulment decision has not been published in the Official Gazette as of the report date but the decision for the stay of execution is published in the Official Gazette on 18 February 2012. For full deductible investment incentive amount, the Group recognized deferred tax assets in its financial statements amounting to TL 430 (31 December 2010: TL 444) considering the fact that the Group may use its right of deducting investment allowances from its corporate income in the future.

3. Significant accounting policies (continued)

3.10 Financial assets and liabilities

Financial Assets

All financial assets are initially measured at fair value, plus transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value and recognized or derecognized on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' (FVTPL), 'held-to-maturity investments', 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets at FVTPL

Financial assets at fair value through profit or loss are financial assets held for trading and financial assets designated under this category upon initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or achieved more relevant accounting measurement. Derivatives are also categorized as held for trading unless they are designated as hedges.

3. Significant accounting policies *(continued)*

3.10 Financial assets and liabilities *(continued)*

Financial Assets *(continued)*

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less impairment, with revenue recognized on an effective yield basis.

Available for sale financial assets

Quoted equity investments and quoted certain debt securities held by the Bank that are traded in an active market are classified as being available-for-sale financial assets and are stated at fair value. The unquoted equity investments that are not traded in an active market but are also classified as available-for-sale financial assets are stated at cost since their value cannot be reliably measured. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on available for sale equity instruments are recognized in profit and loss when the Bank has the right to receive any payment.

The fair value of available for sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the prevailing exchange rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortized cost of the asset is recognized in profit or loss, and other changes are recognized in equity.

Due from banks and loans and advances to customers

Due from banks and loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

When the Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised and presented within loans and advances.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo or stock borrowing"), the arrangement is accounted for as a due from banks, and the underlying asset is not recognised in the Bank's financial statements.

Due from banks and loans and advances to customers are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3. Significant accounting policies *(continued)*

3.10 Financial assets and liabilities *(continued)*

Financial Assets *(continued)*

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss are subject to impairment testing at each balance sheet date to determine whether there is any indication of impairment of financial asset or financial asset group. An entity shall assess at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset. That loss event or events must also have an impact on the estimated future cash flows of the financial asset or group of financial assets. For loans and receivables, the amount of impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by impairment loss directly for all financial assets with the exception of lease receivables where the carrying amount is reduced through the use of an allowance account. When a loan is uncollectible, it is written off against the allowance account. Changes in allowance accounts are recognized in profit or loss.

With the exception of available for sale equity instruments, if, in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. Increase in fair value of available for sale financial assets subsequent to impairment is recognized in directly in equity.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. The carrying amount of the assets approximates their fair value.

Derecognition of financial assets

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

3. Significant accounting policies *(continued)*

3.10 Financial assets and liabilities *(continued)*

Financial Liabilities

Financial liabilities and equity instruments issued by the Bank are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Bank after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities, including funds borrowed, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method plus the interest expense recognized on an effective yield basis. The effective interest method is calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate discounts the estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Deposits, funds borrowed and debt securities issued

The Bank is not entitled to collect deposits. Current accounts of loan customers and funds borrowed are the Bank's sources of debt funding.

Current accounts of loan customers and funds borrowed are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Derecognition of financial liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire.

3. Significant accounting policies *(continued)*

3.10 Financial assets and liabilities *(continued)*

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value of derivatives that do not qualify for hedge accounting are recognised in profit or loss.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available, and valuation techniques, including discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

3.11 Property and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

3.12 Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (three to five years).

Costs associated with developing or maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Costs include the software development employee costs and an appropriate portion of relevant overheads.

3. Significant accounting policies *(continued)*

3.13 Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

3.14 Investment properties

Investment property, which is property, held to earn rentals and/or for capital appreciation is carried at cost less accumulated depreciation and any accumulated impairment losses. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Depreciation is provided on investment property on a straight line basis. The depreciation period for investment property is 50 years.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

If owner occupied property becomes an investment property, the Bank accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Bank accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

No assets held under operating lease have been classified as investment properties.

3.15 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Bank as lessee

Assets held under finance leases are initially recognized as assets of the Bank at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets.

3. Significant accounting policies *(continued)*

3.15 Leases *(continued)*

The Bank as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Bank's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

3.16 Provisions

Provisions are recognized when the Bank has a present obligation as a result of a past event, and it is probable that the Bank will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.17 Employee benefits

Termination and retirement benefits

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Bank. Such payments are considered as being part of defined retirement benefit plan as per International Accounting Standard No. 19 (revised) "Employee Benefits" ("IAS 19").

The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation.

Profit-sharing and bonus plans

The Bank recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(Currency - In thousands of Turkish Lira)

3. Significant accounting policies *(continued)*

3.18 Fiduciary assets

Assets held by the Bank in a fiduciary, agency or custodian capacity for its customers are not included in the balance sheet, since such items are not treated as assets of the Bank.

3.19 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Bank operates in investment and corporate banking. Accordingly, the Bank invests with the funds provided by using the capital market instruments and provides consultancy services so as to provide efficient management and sound financial structure to business enterprises.

The Bank provides investment and operating loans to its commercial and personal customers and also provides service packages consisting of foreign trade operations, investment products, cash management, financial leasing, factoring, and other banking products.

Major financial statement items according to business lines:

2011	Retail Banking	Corporate banking	Investment banking	Other (*)	Total operations of the Bank
Operating income (*)	27	8,355	631	15,156	24,169
Operating expenses	-	(10,182)	-	-	(10,182)
Profit before income tax	27	(1,827)	631	15,156	13,987
Income tax income/expense	-	-	-	-	(872)
Profit from continued operations	27	(1,827)	631	15,156	13,115
Profit from discontinued operations	-	-	-	-	-
Profit / (loss) for the year	**27**	**(1,827)**	**631**	**15,156**	**13,115**
31 December 2011					
Segment assets	408	170,579	-	16,535	187,522
Non-distributed Asset	-	-	-	-	262
Total assets	**408**	**170,579**	**-**	**16,535**	**187,784**
Segment liabilities	-	116,309	-	-	116,309
Shareholders' equity	-	-	-	71,475	71,475
Total liabilities	**-**	**116,309**	**-**	**71,475**	**187,784**

(*) TL 7,092 of operating income in "Other" column is the gain on sale of the shares of Nurol International BV. of which the Bank owned 25.03%. For details please see Note 7. TL 1,554 Thousand of other operating income is the gain on sale of the shares of Nurol Gayrimenkul Yatırım Ortaklığı A.Ş. For details please see Note 7. TL 6,235 Thousand of operating income in "Other" column is the gain on sale Bank's property (flour factory), on 7 October 2011 at an amount of USD 11,354 Thousand which includes 6% of interest and which will be paid in 96 installments amounting to USD 118 Thousand each. For details please see Note 11.

(Currency - In thousands of Turkish Lira)

3. Significant accounting policies *(continued)*

3.19 Segment reporting *(continued)*

2010	Retail Banking	Corporate Banking	Investment banking	Other	Total operations of the Bank
Operating income	48	8,991	615	-	9,654
Operating expenses	-	(10,136)	-	-	(10,136)
Profit before income tax	48	(1,145)	615	-	(482)
Income tax expense	-	-	-	-	511
Profit from continued operations	48	(1,145)	615	-	29
Profit from discontinued operations	-	-	-	-	-
Profit / (loss) for the year	**48**	**(1,145)**	**615**	**-**	**29**
31 December 2010					
Segment assets	338	215,731	-	-	216,069
Non-distributed Asset	-	-	-	-	987
Total assets	**338**	**215,731**	**-**	**-**	**217,056**
Segment liabilities	-	160,630	-	-	160,630
Shareholders' equity	-	-	-	56,426	56,426
Total liabilities	**-**	**160,630**	**-**	**56,426**	**217,056**

Geographical concentration

	Assets	Liabilities	Non-cash loans	Capital expendi-tures	Net profit / (loss)
2011					
Domestic	161,694	178,653	356,130	10,361	13,805
European Union countries	1,809	-	-	-	(684)
OECD countries	11	96	-	-	(6)
USA, Canada	5,054	-	-	-	-
Other countries	8,855	9,035	-	-	-
Total	**177,423**	**187,784**	**356,130**	**10,361**	**13,115**
2010					
Domestic	195,952	187,708	279,565	7,696	719
European Union countries	390	21,554	-	9,534	(524)
OECD countries	15	-	-	-	(166)
USA, Canada	3,469	-	-	-	-
Other countries	-	7,794	-	-	-
Total	**199,826**	**217,056**	**279,565**	**17,230**	**29**

3. Significant accounting policies *(continued)*

3.20. Key sources of estimation uncertainty

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3.10.

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk Function.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3.10. For financial instruments that require varying degrees of judgement depending liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also "Valuation of financial instruments" below.

Critical accounting judgements in applying the Bank's accounting policies

Critical accounting judgements made in applying the Bank's accounting policies include:

Impairment of investment in equity securities

Investments in equity securities are evaluated for impairment on the basis described in accounting policy 3.10.

Valuation of financial instruments

The Bank's accounting policy on fair value measurements is discussed in accounting policy 3.10.

Financial asset and liability classification

The Bank's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances:

- In classifying financial assets and liabilities as "trading", the Bank has determined that it meets the description of held for trading investments and liabilities set out in accounting policy 3.10.
- In classifying financial assets as "available for sale", the bank has determined that it meets the description of available for sale investments set out in accounting policy 3.10 and note 7.

Details of the Bank's classification of financial assets and liabilities are given in note 25.

(Currency - In thousands of Turkish Lira)

4. Cash and cash equivalents

	2011	2010
Cash and balances with central banks	1,982	289
- Cash on hand	*432*	*151*
- Balances with central banks	*1,550*	*138*
Due from banks and financial institutions	11,620	51,025
Cash and cash equivalents in the balance sheet	**13,602**	**51,314**

As at 31 December 2011 and 2010, the details of the balances with central banks and due from banks and financial institutions are as follows:

	2011			
	Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Balances with Central Bank	1,470	80	-	-
Due from banks and financial institutions	8,930	2,690	7.90%	0.63%
Total	**10,400**	**2,770**		

	2010			
	Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Balances with Central Bank	1	137	-	-
Due from banks and financial institutions	15,520	35,505	6.43%	0.65%
Total	**15,521**	**35,642**		

5. Reserve deposits at Central Bank

	2011	2010
Turkish Lira	-	356
Foreign currency	3,727	10,152
	3,727	**10,508**

According to the regulations of Central Bank of the Republic of Turkey ("Central Bank"), banks are required to reserve a portion of certain liability accounts as specified in the related decrees. Such mandatory reserves are not available for use in the Bank's day to day operations.

As of 31 December 2011, the compulsory rates for the reserve deposits at the Central Bank of Turkey for Turkish Lira are implemented within an interval from 5% to 11% depending on the maturity of deposits (31 December 2010 – 5.5%) and the compulsory rates for the foreign currency liabilities are within an interval from 9% to 11% depending on the maturity of deposits (31 December 2010 – 11%).

(Currency - In thousands of Turkish Lira)

6. Held for trading investments

	2011	2010
Debt instruments		
Turkish government bonds-TL denominated	5,866	1,092
Total held for trading investments	**5,866**	**1,092**

Income and losses comprising the gains and losses related to and liabilities and realised and unrealised fair value changes are reflected in the income statement as net trading income / (loss).

7. Available for sale investments

	2011		2010	
	Amount	Effective interest rate	Amount	Effective interest rate
Available-for-sale investments at fair value				
Debt instruments				
Turkish government bonds – TL denominated, net	17,353	12.00%	3,330	6.59%
- Gross amount [a]	*17,373*		*3,330*	
- Impairment on government bonds	(20)		-	
Equity instruments – listed [b]	10,361	13.81%	7,696	6.60%
Equity instruments – unlisted [c]	-		9,534	-
Total available-for-sale investments at fair value	**27,714**		**20,560**	
Available-for-sale investment at cost				
Equity instruments – unlisted	-		-	
Total available-for-sale investments	**27,714**		**20,560**	

(a) Available for sale financial assets include government bonds denominated in TL amounting to TL 8,129 Thousand; the remaining portion amounting to TL 9,224 Thousand consists of foreign currency denominated securities issued in foreign countries amounting to TL 933 Thousand and private sector bonds amounting to TL 8,291 Thousand.

(b) The Bank disposed 223,593 shares out of its1,900,000,000 shares of Nurol Gayrimenkul Yatırım Ortaklığı A.Ş.("Company") in 2011 and recognized the gain on disposal of TL 1,554 Thousand, in "Securities trading gains/ (losses)" account in the income statement. The Bank holds 16.76% of the Company's shares as of 31 December 2011 and the investment is accounted under available for sale investments, as the Bank has no significant influence on the Company. As of the balance sheet date the shares are accounted for using the market price and fair value reserve of TL 8,033 Thousand is accounted under equity (31 December 2010: TL 5,058).

(c) The Bank used to hold 25.03% of the shares of Nurol International B.V, a Nurol Group company. As of 30 June 2011 the Bank sold these shares to Nurol International B.V. at an amount of TL 15,879 Thousand. TL 7,092 Thousand gain on sale of these shares is recognized in other operating income account in income statement.

(Currency - In thousands of Turkish Lira)

8. Loans and advances to customers

	2011			
	Amount			
	TL	Foreign currency	Foreign currency indexed	Total
Finance lease receivables	-	38	-	38
Short-term loans	80,458	3,735	3,799	87,992
Medium and long-term loans	28,652	-	-	28,652
Total performing loans	**109,110**	**3,773**	**3,799**	**116,682**
Non-performing loans	22,613	-	-	22,613
Less: Reserve for possible loan losses	(22,372)	-	-	(22,372)
Total loans, net	**109,351**	**3,773**	**3,799**	**116,923**

	2010			
	Amount			
	TL	Foreign currency	Foreign currency indexed	Total
Finance lease receivables	-	216	-	216
Short-term loans	20,559	54,950	-	75,509
Medium and long-term loans	29,706	10,862	85	40,653
Total performing loans	**50,265**	**66,028**	**85**	**116,378**
Non performing loans	26,960	-	-	26,960
Less: Reserve for possible loan losses	(23,919)	-	-	(23,919)
Total loans, net	**53,306**	**66,028**	**85**	**119,419**

(Currency - In thousands of Turkish Lira)

8. Loans and advances to customers *(continued)*

Movements in non-performing loans:

	2011	2010
Reserve at beginning of year	23,919	22,542
Provision for possible loan losses	113	1,424
Recoveries	(1,660)	(47)
Provision, net of recoveries	(1,547)	1,377
Reserve at end of period	**22,372**	**23,919**

Other provision expenses

	2011	2010
Specific provision expense for non-cash loans	1,347	-
Other provision expenses	**1,347**	**-**

Loans and advances to customers include the following finance lease receivables.

	2011	2010
Gross investment in finance leases, receivable:		
Less than one year	39	201
Between one and five years	-	33
	39	**234**
Unearned future income on finance leases	(1)	(18)
Net investment in finance leases	**38**	**216**
The net investment in finance leases comprises:		
Less than one year	38	184
Between one and four years	-	32
	38	**216**

The finance leases typically run for a period of one to four years, with transfer of ownership of the leased asset at the end of the lease term. Interest is charged over the period of the lease.

The receivables are secured by way of the underlying assets.

(Currency - In thousands of Turkish Lira)

9. Property and equipment

	Office equipment, furniture and fixtures	Leasehold improvements	Other fixed assets	Total
Cost				
Balance at 1 January 2010	2,347	1,327	159	3,833
Acquisitions	257	-	76	333
Disposals	(35)	-	(3)	(38)
Balance at 31 December 2010	**2,569**	**1,327**	**232**	**4,128**
Balance at 1 January 2011	2,569	1,327	232	4,128
Acquisitions	116	10	137	263
Disposals	(945)	-	(1,201)	(2,146)
Balance at 31 December 2011	**1,740**	**1,337**	**(832)**	**2,245**
Depreciation				
Balance at 1 January 2010	(2,052)	(1,301)	(135)	(3,488)
Depreciation for the year	(5)	(9)	(14)	(28)
Disposals	35	-	3	38
Balance at 31 December 2010	**(2,022)**	**(1,310)**	**(146)**	**(3,478)**
Balance at 1 January 2011	(2,022)	(1,310)	(146)	(3,478)
Depreciation for the year	(166)	(9)	(22)	(197)
Disposals	944	-	1,132	2,076
Balance at 31 December 2011	**(1,244)**	**(1,319)**	**964**	**(1,599)**
Carrying amounts				
Balance at 31 December 2010	547	17	86	650
Balance at 31 December 2011	496	18	132	646

As of 31 December 2011 tangible assets were insured to the extent of TL 1,357 Thousand (2010 – TL 1,307) in total.

The estimated useful lives for the current and comparative periods are as follows:

Motor vehicles	5 - 7 years
Office equipment, furniture and fixtures	5 - 15 years
Leased assets	shorter of 5 - 10 years and the lease term

(Currency - In thousands of Turkish Lira)

10. Intangible assets

	Software	Total
Cost		
Balance at 1 January 2010	2,320	2,320
Additions	496	496
Balance at 31 December 2010	**2,816**	**2,816**
Balance at 1 January 2011	2,816	2,816
Additions	290	290
Disposals	(376)	(376)
Balance at 31 December 2011	**2,730**	**2,730**
Amortisation and impairment		
Balance at 1 January 2010	(2,182)	(2,182)
Amortisation charge for the year	(90)	(90)
Balance at 31 December 2010	**(2,272)**	**(2,272)**
Balance at 1 January 2011	(2,272)	(2,272)
Amortisation charge for the year	(282)	(282)
Disposals	360	360
Balance at 31 December 2011	**(2,194)**	**(2,194)**
Carrying amounts		
Balance at 31 December 2010	544	544
Balance at 31 December 2011	536	536

11. Investment property

	2011	2010
Investment property	-	10,320
	-	**10,320**

As of 31 December 2010, the Bank's investment property comprise the building (flour factory) purchased from a loan customer with a payment exceeding the receivable amount. This property is rented out by the Bank and rent agreement expired on 22 February 2011. In the current year, rent income on this property is TL 265 Thousand. The Bank sold this property on 7 October 2011 for USD 11,354 Thousand which includes 6% of interest and which will be paid in 96 installments amounting to USD 118 Thousand each. Until the balance sheet date three of the installments totally amounting to TL 354 Thousand were collected and the remaining TL 20,734 Thousand of the receivable amount and TL 4,199 Thousand of the unearned interest income are accounted for under other assets in the accompanying financial statements. The gain on sale of the investment property, amounting to TL 6,235 Thousand is accounted for under other operating income.

(Currency - In thousands of Turkish Lira)

12. Other assets

	2011	2010
Receivables from sale of a subsidiary	-	1,023
Receivables from disposal of property (Note -11)	16,535	-
Assets held for sale	1,371	-
Others	604	646
	18,510	**1,669**

13. Funds borrowed

	2011			2010		
	TL	Foreign currency	Total	TL	Foreign currency	Total
Funds borrowed	63,312	32,914	96,226	37,066	116,166	153,232
Obligations under repurchase agreements	15,734	-	15,734	3,438	-	3,438
	79,046	**32,914**	**111,960**	**40,504**	**116,166**	**156,670**

The effective interest rate for funds borrowed denominated in USD is 3.1% (2010 –4.6%), in EUR is 2.4% (2010 – 3.9%) and in TL is 6.5% (2010 – 7.1%). As at 31 December 2011 and 2010, funds borrowed have fixed interest rates.

As at 31 December 2011 and 2010, funds borrowed are unsecured.

The Bank has not had any defaults of principal, interest or redemption amounts or other breaches of loan covenants as at 31 December 2011 (31 December 2010 – none).

14. Other liabilities

	2011	2010
Current accounts of loan customers	1,057	2,399
Taxes and funds payable	369	330
Others	146	253
	1,572	**2,982**

(Currency - In thousands of Turkish Lira)

15. Provisions

	2011	2010
Employee termination benefits	432	350
Bonus accrual	250	-
Vacation pay liability	261	207
Provision for non -cash loans	1,049	14
Provision for lawsuits	140	140
Other	251	267
	2,383	**978**

The movement in provision for employee termination benefits is as follows:

	2011	2010
At 1 January	350	221
Increase during the year	82	129
At 31 December	**432**	**350**

Employee termination benefits

In accordance with existing social legislation in Turkey, the Bank is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL full 2,731.85 and TL full 2,517.01 at 31 December 2011 and 2010, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as at 31 December 2011 and 2010, the Bank reflected a liability calculated based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds at the balance sheet date. The Bank used 4.66% discount rate, 5.10% inflation rate and 10% interest rate for provision of severance payment (31 December 2010 – discount rate: 4.66%, inflation rate: 5.10%, interest rate: 10%)

(Currency - In thousands of Turkish Lira)

16. Taxation

The Bank is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey.

In Turkey, corporate tax rate is 20%. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts which are calculated and paid are offset against the final corporate tax liability for the year.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years. Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the year-end balance sheet date and taxes must be paid in one instalment by the end of the fourth month.

Income tax recognised in the income statement

The components of income tax expense as stated below:

	2011	2010
Current tax		
Current income tax	(218)	-
Deferred income / (expense) tax		
Relating to origination and reversal of temporary differences	(654)	511
Income tax expense reported in the income statement	**(872)**	**511**

Reconciliation of effective tax rate

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate for the years ended 31 December 2011 and 2010 is as follows:

	2011	2010
Profit before income tax	13,987	(482)
Income tax using the domestic corporation tax rate 20% (2010 – 20%)	(2,797)	96
Sales gain on available for sale and property exempt from tax	2,399	-
Disallowable expenses	(114)	(29)
Effect of investment incentive	59	444
Other	(419)	-
Total income tax expense in the profit or loss	**(872)**	**511**

Movement of net deferred tax assets can be presented as follows:

	2011	2010
Deferred tax assets, net at 1 January	980	(146)
Deferred tax recognised in the profit or loss	(654)	511
Deferred income tax recognised in other comprehensive income	(66)	615
Deferred tax assets/(liabilities), net at end of the year	**260**	**980**

(Currency - In thousands of Turkish Lira)

16. Taxation *(continued)*

Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2011			2010		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Tax losses	-	-	-	697	-	697
Liability for defined benefit plans	189	-	189	111	-	111
Valuation of available for sale financial assets	-	(402)	(402)	-	(289)	(289)
Investment incentive	430	-	430	444	-	444
Other provisions	43	-	43	17	-	17
	662	**(402)**	**260**	**1,269**	**(289)**	**980**

Movements in temporary differences during the year

2011	**Balance at 1 January**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Balance at 31 December**
Tax losses	697	(697)	-	-
Liability for defined benefit plans	111	78	-	189
Valuation of available for sale financial assets	(289)	(47)	(66)	(402)
Investment incentive	444	(14)	-	430
Other	17	26	-	43
	980	**(654)**	**(66)**	**260**

2010	**Balance at 1 January**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Balance at 31 December**
Tax losses	646	51	-	697
Liability for defined benefit plans	44	67	-	111
Valuation of available for sale financial assets	(906)	2	615	(289)
Investment incentive	-	444	-	444
Other provisions	70	(53)	-	17
	(146)	**511**	**615**	**980**

(Currency - In thousands of Turkish Lira)

17. Commitments and contingencies

In the normal course of business, the Bank enters into a number of contractual commitments on behalf of its customers and is a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers. These contractual commitments consist of commitments to extend credit, commercial letters of credit and standby letters of credit and guarantees. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of the conditions established in the contract. Commercial letters of credit ensure payment by a bank to a third party for a customer's foreign or domestic trade transactions, generally to finance a commercial contract for the shipment of goods. Standby letters of credit and financial guarantees are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. All of these arrangements are related to the normal lending activities of the Bank. The Bank's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and commercial and standby letters of credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

As at 31 December 2011 and 2010; commitments and contingencies comprised the following:

	2011	2010
Letters of guarantee	344,929	274,213
Letters of credit	11,201	5,352
Other commitments	230	268
Total	**356,360**	**279,833**

(Currency - In thousands of Turkish Lira)

18. Share capital and reserves

Share capital

As at 31 December 2011 and 2010, the composition of shareholders and their respective percentage of ownership are summarised as follows:

	2011		2010	
	Amount	**%**	**Amount**	**%**
Nurol Holding AŞ	35,171	78	35,171	78
Nurol İnşaat ve Tic. AŞ	7,182	16	7,182	16
Nurol Otelcilik ve Turizm İşletmeciliği AŞ	397	1	397	1
Others	2,250	5	2,250	5
Historical amount	45,000	100	45,000	100
Restatement effect	64,985		64,985	
Offsetting	(64,985)		(64,985)	
Total	**45,000**		**45,000**	

As at 31 December 2011 and 2010, the authorised share capital comprised of 45,000 ordinary shares having a par value of TL full 1,000. All issued shares are paid.

Adjustment to share capital represents the restatement of paid-in capital in accordance with inflation accounting.

In accordance with the resolution of Board of Directors dated 4 March 2008, adjustment to share capital was offset against the accumulated loss.

Legal reserves

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted.

As at 31 December 2011, the Company's legal reserves amounted to TL 664 Thousand (2010 – TL 664 Thousand).

Available-for-sale reserve

The available-for-sale reserve includes the cumulative net change in the fair value of available-for-sale available for sale investments until the investment is derecognised or impaired.

Movement in available-for-sale reserve is as follows:

At 1 January 2010	3,755
Net change in fair value of available-for-sale financial assets	1,772
At 31 December 2010	**5,527**
At 1 January 2011	5,527
Change in fair value of available-for-sale financial assets (net of tax)	1,934
At 31 December 2011	**7,461**

(Currency - In thousands of Turkish Lira)

19. Net interest income

	2011	2010
Interest income		
Loans and advances to customers	9,206	9,605
Deposits with banks and other financial institutions	560	194
Held for trading and available for sale investments	1,490	842
Financial leases	21	40
Other	249	18
	11,526	**10,699**
Interest expense		
Funds borrowed	4,836	5,361
Interbank funds borrowed	742	308
	5,578	**5,669**
Net interest income	**5,948**	**5,030**

20. Net fee and commission income

	2011	2010
Fee and commission income		
Non-cash loans	2,203	2,227
Other	863	747
Total fee and commission income	**3,066**	**2,974**
Fee and commission expense		
Non-cash loans	500	-
Other	251	337
Total fee and commission expense	**751**	**337**
Net fee and commission income	**2,315**	**2,637**

21. Net trading income / (loss)

	2011	2010
Gain / (loss) on foreign exchange rate fluctuations	934	395
Gain / (loss) from securities	1,988	40
Gain / (loss) on derivatives	(1,058)	541
Total	**1,864**	**976**

(Currency - In thousands of Turkish Lira)

22. Other operating income

	2011	2010
Rent income	265	838
Dividend income	-	31
Communication income	57	60
Gain on disposal of investment property (Note -11)	6,235	-
Gain on disposal of Nurol International B.V (Note -7)	7,092	-
Other	393	82
Total	**14,042**	**1,011**

23. Personnel expenses

	2011	2010
Wages and salaries	2,825	2,729
Compulsory social security obligations	512	390
Other fringe benefits	4	3
Other benefits	792	807
Total	**4,133**	**3,929**

24. Administrative expenses

	2011	2010
Subscription fees	1,388	1,137
Rent expenses	601	527
Telecommunication expenses	565	430
Audit and advisory expenses	254	235
Notary expenses	483	499
Computer expenses	328	138
Maintenance expenses	178	184
Transportation expenses	166	154
Taxes and duties expenses	707	134
Office supplies	48	47
Hosting expenses	46	44
Advertising expenses	10	10
Other various administrative expenses	669	998
Total	**5,443**	**4,537**

25. Financial risk management objectives and policies

a) Introduction and overview

The Bank has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Bank's risk approach is to achieve sound and sustainable low risk profile, through the identification, the measurement and the monitoring of all types of risks inherent in the nature of the business activities. The main principle of the Bank is to manage the credit risk effectively and to eliminate the other types of risk by not carrying positions.

In the course of its normal operations, the Bank is exposed to a number of risks such as credit risk, liquidity risk, market risk and operational risk. The Bank's risk policy can be summarised as:

- well managing the credit risk through a high standardised credit risk management
- eliminating liquidity risk
- minimising market risk

In accordance with the Bank's general risk management strategy; the Bank aims to eliminate and hedge its currency, interest rate and maturity positions that might create liquidity or market risk to the Bank. Additionally, in order to minimise the market risk, marketable securities portfolio is limited proportional to the total assets size.

Board of Directors is the highest authority to set all risk management guidelines, and it is responsible for ensuring that the Bank implements all necessary risk management techniques in compliance with the related regulatory requirements in Turkey.

All risk levels are set and approved by the Board of Directors on a regularly basis, and it is announced to the organization.

The Bank manages its exposure to all types of risks through the Asset and Liability Committee, comprising members of senior management, and a representative of main shareholder.

In summary, in order not to be exposed to any liquidity, interest rate, market and foreign currency risk, the Bank always keeps its funding structure in line with the asset structure (in terms of currency, maturity and interest rate) and hedges its positions through various derivative transactions. In addition to that, the Bank does not take any speculative positions on currency, interest rate and maturity that might create any liquidity or market risk to the Bank.

(Currency - In thousands of Turkish Lira)

25. Financial risk management objectives and policies *(continued)*

b) Credit risk

Credit risk represents the risk arising from the counter party's not fulfilling its responsibilities stated in the agreement either partially or totally. Credit Risk Management Committee is responsible for managing credit risk at the Bank.

Total amount of credits granted to a group is subject to certain credit risk limits. According to the decision taken by the Board of Directors, the maximum amount of the loan to be granted to a group (cash and non-cash) is limited with the calculation of certain percentages of the shareholders' equity based on the rating of the group. Furthermore, concentration risk is monitored on monthly basis in terms of industry, rating by risk group and customer.

The credibility of the debtors of the Bank is assessed periodically. Loan limits of the loan customers are revised periodically in line with the Bank's procedures. The Bank analyses the credibility of the loans within the framework of its loan policies and obtains collaterals for loans and other receivables.

The restructured and rescheduled loans are evaluated in the Bank's current rating system besides the follow up method determined in the related regulation.

Credit risk by risk groups

	Individual	Corporate	Leasing	Total
2011				
Performing loans	408	115,636	38	116,082
Loans under close monitoring	-	600	-	600
Non-performing loans	3	22,610	-	22,613
Gross	**411**	**138,846**	**38**	**139,295**
Reserve for possible loan losses	-	(22,372)	-	(22,372)
Total	**411**	**116,474**	**38**	**116,923**
2010				
Performing loans	339	115,483	216	116,038
Loans under close monitoring	-	340	-	340
Non-performing loans	-	26,960	-	26,960
Gross	**339**	**142,783**	**216**	**143,338**
Reserve for possible loan losses	-	(23,919)	-	(23,919)
Total	**339**	**118,864**	**216**	**119,419**

(Currency - In thousands of Turkish Lira)

25. Financial risk management objectives and policies *(continued)*

b) Credit risk *(continued)*

Exposure to credit risk

		Due from banks		Loans and advances to customers	
At 31 December	*Notes*	**2011**	**2010**	**2011**	**2010**
Carrying amount		**11,620**	**51,025**	**116,923**	**119,419**
Individually impaired					
- Non-performing financial assets		-	-	22,613	26,960
Gross amount		-	-	**22,613**	**26,960**
Reserve for possible loan losses	*8*	-	-	(22,372)	(23,919)
Carrying amount		-	-	**241**	**3,041**
Past due but not impaired		-	-	-	-
Carrying amount		-	-	-	-
Neither past due nor impaired		11,620	51,025	116,082	116,378
Carrying amount		**11,620**	**51,025**	**116,082**	**116,378**
Includes account with renegotiated terms		-	-	600	-
Carrying amount		-	-	**600**	-
Carrying amount (amortised cost)	*4, 8*	**11,620**	**51,025**	**116,923**	**119,419**

Impaired loans and advances

Individually impaired loans are loans and advances for which the Bank determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loan.

Past due but not impaired loans

Past due but not impaired loans are those for which contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

25. Financial risk management objectives and policies *(continued)*

b) Credit risk *(continued)*

Exposure to credit risk (continued)

Reserve for possible loan losses

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio.

The Bank establishes an allowance for impairment losses on assets carried at amortised cost that represents its estimate of incurred losses in its loan portfolio.

Write-off policy

The Bank writes off a loan balance and any related allowances for impairment losses, when Bank position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not sufficient to pay back the entire exposure.

Collateral policy

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over due from banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

(Currency - In thousands of Turkish Lira)

25. Financial risk management objectives and policies *(continued)*

b) Credit risk *(continued)*

Collateral policy (continued)

The breakdown of performing cash and non-cash loans and advances to customers by type of collateral is as follows:

Cash loans	**2011**	**2010**
Secured cash loans	69,762	49,214
Secured by cash collateral	-	*46,440*
Personal guarantees	*47,787*	*484*
Secured by mortgages	*137*	*1,300*
Secured by customer cheques & acts	*21,800*	*774*
Leasing	*38*	*216*
Non-secured cash loans	46,000	65,825
Accrued interest income on loans	920	1,339
Total performing cash loans	**116,682**	**116,378**

Non-cash loans[(1)]	**2011**	**2010**
Secured non-cash loans	152,449	134,610
Personal guarantees	*152,120*	*134,062*
Secured by cash collateral	*329*	*446*
Secured by customer cheques & acts	-	*102*
Non-secured non cash loans	203,883	144,955
Total non-cash loans	**356,332**	**279,565**

(1) Other commitments are not included.

(Currency - In thousands of Turkish Lira)

25. Financial risk management objectives and policies *(continued)*

b) Credit risk *(continued)*

Segment concentration

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from due from banks and loans and advances to customers at the reporting date is shown below:

	Due from banks		Loans and advances to customers	
	2011	**2010**	**2011**	**2010**
Banks	11,620	51,025	-	-
Manufacturing	-	-	10,730	49,815
Mining	-	-	-	*46,498*
Production	-	-	*10,730*	*3,317*
Natural resources	-	-	-	-
Construction	-	-	42,940	23,432
Services	-	-	58,869	39,547
Wholesale and retail trade	-	-	*22,037*	*4,743*
Hotel, food and beverage services	-	-	-	*34,657*
Financial institutions	-	-	*33,044*	-
Educational services	-	-	*19*	*20*
Health and social services	-	-	*847*	*127*
Renting Service			*2,922*	-
Other	-	-	4,143	3,584
Non performing loans, net	-	-	241	3,041
Total	**11,620**	**51,025**	**116,923**	**119,419**

Concentration risk by location

		Due from banks		Loans and advances to customers	
	Notes	**2011**	**2010**	**2011**	**2010**
Turkey		155	50,101	112,659	116,253
Europe		1,809	290	-	-
Other		9,656	634	4,264	3,166
	4, 8	**11,620**	**51,025**	**116,923**	**119,419**

Held for trading investments

At 31 December 2011, the Bank has held for trading investments amounting to TL 5,866 Thousand (2010 – TL 1,092 Thousand). An analysis of the credit quality of the maximum credit exposure is as follows:

	Note	**2011**	**2010**
Government bonds and treasury bills	*6*	5,866	1,092
Fair value and carrying amount		**5,866**	**1,092**

(Currency - In thousands of Turkish Lira)

25. Financial risk management objectives and policies *(continued)*

c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk is a substantial risk in the Turkish market, which exhibits significant volatility.

Management of liquidity risk

In order to manage this risk, the Bank measures and manages its cash flow commitments on a daily basis and maintains liquid assets, which it judges sufficient to meet its commitments.

The calculation method used to measure the banks compliance with the liquidity limit is set by Banking Regulatory and Supervision Agency ("BRSA"). In November 2006, BRSA issued a new communiqué on the measurement of liquidity adequacy of the banks. This new legislation requires the banks to meet 80% liquidity ratio of foreign currency assets/liabilities and 100% liquidity ratio of total assets/liabilities based on arithmetic average computations on a weekly and monthly basis effective from 1 June 2007. The Bank's liquidity ratios in 2011 and 2010 are as follows:

	First maturity bracket (weekly)		Second maturity bracket (monthly)	
	Foreign currency (%)	Total (%)	Foreign currency (%)	Total (%)
2011 average	224	180	190	154
2010 average	182	193	150	161

As at 31 December 2011 and 31 December 2010, the following table provides the contractual maturities of the Bank's financial liabilities.

31 December 2011

	Carrying Amount	Contractual cash flows	6 month or less	6 to 12 months	1 to 2 years	2 to 5 years	more than 5 Years
Funds borrowed	111,960	122,609	90,913	25,429	6,267	-	-
	111,960	**122,609**	**90,913**	**25,429**	**6,267**	**-**	**-**

31 December 2010

	Carrying Amount	Contractual cash flows	6 month or less	6 to 12 months	1 to 2 years	2 to 5 years	more than 5 Years
Funds borrowed	156,670	159,559	138,178	11,600	-	-	9,781
	156,670	**159,559**	**138,178**	**11,600**	**-**	**-**	**9,781**

(Currency - In thousands of Turkish Lira)

25. Financial risk management objectives and policies *(continued)*

c) Liquidity risk *(continued)*

Exposure to liquidity risk

The calculation method used to measure the Bank's compliance with the liquidity limit is set by BRSA.

Maturity analysis of monetary assets and liabilities according to their remaining maturities is presented below:

31 December 2011	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Unidentified maturity	Total
Cash and cash equivalents	4,746	8,856	-	-	-	-	-	13,602
Reserve deposits at Central Bank	-	3,727	-	-	-	-	-	3,727
Held for trading investments	-	-	-	-	5,866	-	-	5,866
Available for sale investments	-	-	-	12,082	5,271	-	10,361	27,714
Loans and advances to customers	-	17	635	87,211	28,652	-	408	116,923
Other assets	-	178	356	1,600	8,534	5,867	1,975	18,510
Total assets	**4,746**	**12,778**	**991**	**100,893**	**48,323**	**5,867**	**12,744**	**186,342**
Funds borrowed	-	65,711	17,693	23,144	5,412	-	-	111,960
Other liabilities	1,057	-	-	-	-	-	733	1,790
Derivative Financial Instruments	-	176	-	-	-	-	-	176
Total liabilities	**1,057**	**65,887**	**17,693**	**23,144**	**5,412**	**-**	**733**	**113,926**
Liquidity gap	**3,689**	**(53,109)**	**(16,702)**	**77,749**	**42,911**	**5,867**	**12,011**	**72,416**

31 December 2010	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Unidentified maturity	Total
Cash and cash equivalents	1,327	49,987	-	-	-	-	-	51,314
Reserve deposits at Central Bank	356	10,152	-	-	-	-	-	10,508
Held for trading investments	-	-	-	1,092	-	-	-	1,092
Available for sale investments	-	-	-	3,330	-	-	17,230	20,560
Loans and advances to customers	-	50,381	8,322	17,022	4,855	35,798	3,041	119,419
Other assets	-	-	-	-	-	-	1,669	1,669
Total assets	**1,683**	**110,520**	**8,322**	**21,444**	**4,855**	**35,798**	**21,940**	**204,562**
Funds borrowed	-	114,366	12,239	22,306	-	7,759	-	156,670
Other liabilities	2,157	-	-	-	-	-	825	2,982
Total liabilities	**2,157**	**114,366**	**12,239**	**22,306**	**-**	**7,759**	**825**	**159,652**
Liquidity gap	**(474)**	**(3,846)**	**(3,917)**	**(862)**	**4,855**	**28,039**	**21,115**	**44,910**

(Currency - In thousands of Turkish Lira)

25. Financial risk management objectives and policies *(continued)*

d) Market risk

Market risk is the risk that changes in market prices such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Bank's income or the value of its holdings of financial instruments.

The Board of Directors of the Bank determines the risk limits for primary risks carried by the Bank and periodically revises these limits. For the purpose of hedging market risk, the Bank primarily aims to balance the foreign currency position, collateralise the loans and manage liquidity.

The market risk arising from trading portfolio is monitored, measured and reported using Standardised Approach to the legal legislation. The monthly market risk report and the weekly currency risk reports prepared using Standardised Approach are reported to BRSA. The Bank's value at market risks as at 31 December 2011 and 2010 calculated as per the statutory financial statements prepared for BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 26333 dated 1 November 2006, are as follows:

	2011			2010		
	Average	**Highest**	**Lowest**	**Average**	**Highest**	**Lowest**
Interest rate risk	290	816	75	46	143	7
Equity price risk	1,843	2,472	1,186	1,153	1,720	942
Currency risk	409	764	265	278	589	35
Total value-at-risk	**2,542**	**4,052**	**1,526**	**1,477**	**2,452**	**984**

(Currency - In thousands of Turkish Lira)

25. Financial risk management objectives and policies *(continued)*

d) Market risk

Currency risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign currency risk indicates the possibility of the potential losses that the Bank is subject to due to the exchange rate movements in the market.

Position limit of the Bank related with currency risk is determined according to Foreign Currency Net Position Standard ratio determined by BRSA.

The concentrations of assets, liabilities and off balance sheet items are as follows:

	USD	Euro	JPY	Others	Total
2011					
Assets					
Cash and cash equivalents	887	1,840	12	116	2,855
Reserve deposits at Central Bank	1,338	2,469	-	-	3,807
Loans and advances to customers	7,534	-	-	-	7,534
Available for sale investments	933	-	-	-	933
Other assets	16,535	38	-	-	16,573
Total assets	**27,227**	**4,347**	**12**	**116**	**31,702**
Liabilities					
Funds borrowed	20,397	12,526	-	-	32,923
Other liabilities	382	55	-	17	454
Total liabilities	**20,779**	**12,581**	**-**	**17**	**33,377**
Gross exposure	**6,448**	**(8,234)**	**12**	**99**	**(1,675)**
Off-balance sheet position					
Net notional amount of derivatives	5,655	5,861	-	-	11,516
Net exposure	**12,103**	**(2,373)**	**12**	**99**	**9,841**

(Currency - In thousands of Turkish Lira)

25. Financial risk management objectives and policies *(continued)*

d) Market risk *(continued)*

Currency risk (continued)

	USD	Euro	JPY	Others	Total
2010					
Assets					
Cash and cash equivalents	20,936	14,467	123	182	35,708
Reserve deposits at Central Bank	519	9,633	-	-	10,152
Loans and advances to customers	65,919	194	-	-	66,113
Available for sale investments	-	9,534	-	-	9,534
Total assets	**87,374**	**33,828**	**123**	**182**	**121,507**
Liabilities					
Funds borrowed	82,143	34,023	-	-	116,166
Other liabilities	1,035	273	-	14	1,322
Total liabilities	**83,178**	**34,296**	**-**	**14**	**117,488**
Gross exposure	**4,196**	**(468)**	**123**	**168**	**4,019**
Off-balance sheet position					
Net notional amount of derivatives	-	-	-	-	-
Net exposure	**4,196**	**(468)**	**123**	**168**	**4,019**

(Currency - In thousands of Turkish Lira)

25. Financial risk management objectives and policies *(continued)*

d) Market risk *(continued)*

Currency risk (continued)

Sensitivity analysis

A 10 percent weakening of TL against the foreign currencies at 31 December 2011 and 2010 would have effect on the equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2011.

Unlisted foreign currency equity instrument is not included in the sensitivity analysis as of 31 December 2010.

2011	Equity	Profit or loss
Euro	(237)	(237)
USD	1,210	1,210
Other currencies	11	11
	984	**984**

2010	Equity	Profit or loss
Euro	(1,000)	(1,000)
USD	420	420
Other currencies	29	29
	(551)	**(551)**

A 10 percent strengthening of the TL against the foreign currencies at 31 December 2011 and 2010 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

Interest rate risk that would arise from the changes in interest rates depending on the Bank's position is managed by the Asset and Liability Committee of the Bank.

Interest rate sensitivity of assets, liabilities and off balance sheet items is analysed by top management in the Asset and Liability Committee meetings held every week by taking the market developments into consideration.

The Management of the Bank follows the interest rates in the market on a daily basis and revises interest rates of the Bank when necessary.

(Currency - In thousands of Turkish Lira)

25. Financial risk management objectives and policies *(continued)*

d) Market risk *(continued)*

Interest rate risk (continued)

The following table indicates the periods in which financial assets and liabilities reprice as of 31 December 2011 and 2010:

	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non interest bearing	Total
As at 31 December 2011							
Assets							
Cash and cash equivalents	8,856	-	-	-	-	4,746	13,602
Reserve deposits at Central Bank	-	-	-	-	-	3,727	3,727
Held for trading investments	-	5,866	-	-	-	-	5,866
Available for sale investments	934	5,958	9,133	1,328	-	10,361	27,714
Loans and advances to customers	17	635	87,211	28,652	-	408	116,923
Other	178	356	1,600	8,534	5,867	3,417	19,952
Total assets	**9,985**	**12,815**	**97,944**	**38,514**	**5,867**	**22,659**	**187,784**
Liabilities							
Funds borrowed	65,711	17,693	23,144	5,412	-	-	111,960
Current account of loans customers[1]	-	-	-	-	-	1,057	1,057
Other	-	-	-	-	-	74,767	74,767
Total liabilities	**65,711**	**17,693**	**23,144**	**5,412**	**-**	**75,824**	**187,784**
On balance sheet interest sensitivity gap	**(55,726)**	**(4,878)**	**74,800**	**33,102**	**5,867**	**(53,165)**	**-**
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-
Total interest sensitivity gap	**(55,726)**	**(4,878)**	**74,800**	**33,102**	**5,867**	**(53,165)**	**-**

[1] Included in other liabilities.

	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non interest bearing	Total
As at 31 December 2010							
Assets							
Cash and cash equivalents	49,987	-	-	-	-	1,327	51,314
Reserve deposits at Central Bank	-	-	-	-	-	10,508	10,508
Held for trading investments	-	-	1,092	-	-	-	1,092
Available for sale investments	-	-	3,330	-	-	17,230	20,560
Loans and advances to customers	50,381	8,322	17,022	4,855	35,798	3,041	119,419
Other	-	-	-	-	-	14,163	14,163
Total assets	**100,368**	**8,322**	**21,444**	**4,855**	**35,798**	**46,269**	**217,056**
Liabilities							
Funds borrowed	114,366	12,239	22,306	-	7,759	-	156,670
Current account of loans customers[1]	-	-	-	-	-	2,399	2,399
Other	-	-	-	-	-	57,987	57,987
Total liabilities	**114,366**	**12,239**	**22,306**	**-**	**7,759**	**60,386**	**217,056**
On balance sheet interest sensitivity gap	**(13,998)**	**(3,917)**	**(862)**	**4,855**	**28,039**	**(14,117)**	**-**
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-
Total interest sensitivity gap	**(13,998)**	**(3,917)**	**(862)**	**4,855**	**28,039**	**(14,117)**	**-**

[1] Included in other liabilities.

(Currency - In thousands of Turkish Lira)

25. Financial risk management objectives and policies *(continued)*

d) Market risk *(continued)*

Exposure to interest rate risk sensitivity

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income based on the floating rate non-trading financial assets and financial liabilities and trading financial assets and liabilities held at 31 December 2011 and 2010. The sensitivity of equity is calculated by revaluing available for sale financial assets at 31 December 2011 and 2010 for the effects of the assumed changes in interest rates. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

2011	**Profit or loss**		**Equity**	
	100 bp increase	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
Financial assets designated at fair value through profit or loss	(60)	61	(60)	61
Available for sale financial assets	-	-	(110)	114
Floating rate financial assets	647	(651)	647	(651)
Total, net	**587**	**(590)**	**477**	**(476)**

2010	**Profit or loss**		**Equity**	
	100 bp increase	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
Financial assets designated at fair value through profit or loss	(8)	8	(8)	8
Available for sale financial assets	-	-	(24)	24
Floating rate financial assets	56	(56)	56	(56)
Total, net	**48**	**(48)**	**(24)**	**24**

(Currency - In thousands of Turkish Lira)

25. Financial risk management objectives and policies *(continued)*

d) Market risk *(continued)*

Interest rate risk (continued)

Summary of average interest rates

As at 31 December 2011 and 2010, the summary of average interest rates for different assets and liabilities are as follows:

	2011			2010		
	Euro	**USD**	**TL**	**Euro**	**USD**	**TL**
Assets						
Cash and balances with the Central Bank	-	-	-	-	-	-
Due from banks	0.72	0.43	7.90	0.70	0.62	6.43
Held for trading investments	-	-	12.00	-	-	6.59
Available for sale financial assets	-	5.30	10.81	-	-	6.60
Loans and advances to customers	-	7.61	13.81	-	5.32	10.95
Other asset	-	6.00	-	-	-	-
Liabilities						
Other money market deposits	-	-	8.82	-	-	5.12
Funds borrowed	2.43	3.15	6.52	3.84	4.54	7.02

e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The operational risk items in the Bank are determined in accordance with the definition of operational risk by considering the whole processes, products and departments. The control areas are set for operational risks within the Bank and all operational risks are followed by assigning the risks to these control areas. In this context, appropriate monitoring methodology is developed for each control area that covers all operational risks and control frequencies are determined.

The Bank calculated the value at operational risk in accordance with the "Computation of Value of Operational Risk" of the circular, "Regulation Regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette dated 1 November 2006, using gross profit of the last three years, 2008, 2009 and 2010. The amount calculated as TL 19,379 as at 31 December 2011 (31 December 2010 – TL 19,452) represents the operational risk that the Bank may expose and the amount of minimum capital requirement to eliminate this risk.

(Currency - In thousands of Turkish Lira)

25. Financial risk management objectives and policies *(continued)*

f) Capital management

BRSA, the regulator body of the banking industry, sets and monitors capital requirements for the Bank. In implementing current capital requirements, BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total risk-weighted assets.

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, capital is composed of the total amount of paid up capital, legal, voluntary and extra reserves, profits for the period after tax provisions and profits for previous years. The total amount of banks' losses for the period and losses for previous years is taken into account as a deduction item, in the calculation of Tier 1 capital.
- Tier 2 capital, is composed of the total amount of general provisions for credits, fixed assets revaluation fund, revaluation of available-for-sale financial assets and equity investments, subordinated loans received, free reserves set aside for contingencies and the fund for increase in the value of securities.

Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. Operational risk capital requirement is calculated using Basic Indicator Approach and included in the capital adequacy calculations.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Bank and its individually regulated operations have complied with externally imposed capital requirements throughout the period.

There have been no material changes in the Bank's management of capital during the period.

The Bank's capital position at 31 December 2011 and 2010 is as follows:

	2011	2010
Amount subject to credit risk (I)	308,404	244,697
Amount subject to market risk (II)	29,975	20,275
Amount subject to operational risk (III)	19,379	19,452
Total risk-weighted assets and value at market risk and operational risk (IV) = (I+II+II)	**357,758**	**284,424**
Shareholders' equity:		
Tier 1 capital	55,941	49,407
Tier 2 capital	5,684	3,363
Total regulatory capital	**61,625**	**52,770**
Capital adequacy ratio	**17.23%**	**18.55%**

(Currency - In thousands of Turkish Lira)

25. Financial risk management objectives and policies *(continued)*

Fair values

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets or valuation techniques. However, the Bank expects no significant difference between the fair value and carrying value of the financial instruments below since their maturities are short-term.

The table below sets out the Bank's classification of each class of financial assets and liabilities and their fair values.

	Notes	Trading	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value
2011							
Cash and cash equivalents	*4*	13,602	-	-	-	13,602	13,602
Reserve deposits at Central Bank	*5*	-	3,727	-	-	3,727	3,727
Held for trading investments	*6*	5,866	-	-	-	5,866	5,866
Available for sale investments	*7*	-	-	27,714	-	27,714	27,714
Loans and advances to customers	*8*	-	116,923	-	-	116,923	116,995
Other asset		-	-	-	16,535	16,535	16,535
		19,468	120,650	27,714	16,535	184,367	184,439
Funds borrowed	*13*	-	-	-	111,960	111,960	111,857
Current account of loan customers(1)	*14*	-	-	-	1,057	1,057	1,057
		-	-	-	113,017	113,017	112,914

(1) Included in other liabilities.

	Notes	Trading	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value
2010							
Cash and cash equivalents	*4*	51,314	-	-	-	51,314	51,314
Reserve deposits at Central Bank	*5*	-	10,508	-	-	10,508	10,508
Held for trading investments	*6*	1,092	-	-	-	1,092	1,092
Available for sale investments	*7*	-	-	20,560	-	20,560	20,560
Loans and advances to customers	*8*	-	119,419	-	-	119,419	118,880
		52,406	129,927	20,560	-	202,893	202,354
Funds borrowed	*13*	-	-	-	156,670	156,670	153,232
Current account of loan customers(1)	*14*	-	-	-	2,399	2,399	2,399
		-	-	-	159,069	159,069	155,631

(1) Included in other liabilities.

Loans and advances to customers

Loans and advances to customers are net of provisions for impairment. The estimated fair value of loans and advances to customers represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(Currency - In thousands of Turkish Lira)

25. Financial risk management objectives and policies *(continued)*

Fair values *(continued)*

Fair values of remaining financial assets and liabilities carried at cost, including cash and cash equivalents, reserve deposits at Central Bank, current account of loan customers and funds borrowed are considered to approximate their respective carrying values due to their short-term nature.

The Bank measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments using valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like forwards and currency swaps, that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt securities. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

This table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

2011	*Note*	Level 1	Level 2	Level 3	Total
Assets					
Held for trading investments	*6*	27,714	-	-	27,714
Available for sale investments	*7*	5,866	-	-	5,866
Derivative financial liabilities held for trading		-	(176)	-	(176)
		33,580	**(176)**	-	**(33,404)**

2010	*Note*	Level 1	Level 2	Level 3	Total
Assets					
Held for trading investments	*6*	1,092	-	-	1,092
Available for sale investments	*7*	11,026	-	9,534	20,560
		12,118	-	**9,534**	**21,652**

(Currency - In thousands of Turkish Lira)

26. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions.

In the course of conducting its banking business, the Bank conducted various business transactions with related parties. These include loans, customer accounts, funds borrowed and non-cash transactions. These are all commercial transactions and realised on an arms-length basis. The volumes of related party transactions, outstanding balances at year-end and relating expense and income for the year are as follows:

2011	Balance	Percentage of the financial statement amount (%)
Cash loans	46,433	40%
Non-cash loans	187,875	53%
Funds borrowed / Current accounts of loan customers	13,509	100%

2010	Balance	Percentage of the financial statement amount (%)
Cash loans	89,132	75%
Non-cash loans	152,257	54%
Funds borrowed / Current accounts of loan customers	50,673	32%
Other assets	1,022	61%

As at 31 December 2011, no provisions have been recognised in respect of loans given to related parties (2010 – none).

Interest and commission income from related parties for the year ended 31 December 2011: is amounting to TL 4,995 for cash loans and TL 2,631 for non-cash loans (31 December 2010: is amounting to TL 7,358 for cash loans and TL 1,306 for non-cash loans). TL 8,646 Thousand of operating income in other income is the total gain on sales of the shares of Nurol International B.V.(TL 7,092 Thousand) and Nurol Gayrimenkul Yatırım Ortaklığı (TL 1,554 Thousand).

Compensation of key management personnel of the Bank

The executive and non-executive member of Board of Directors and management received remuneration and fees amounted to TL 958 (2010 – TL 994) comprising salaries and other benefits.

27. Events after balance sheet date

1. The Constitutional Court has ruled that the inserted paragraph to Provisional Article 69.(1) of the Income Tax Law, which has been effective upon Article 5 of the Law No: 6009, is contrary to the Constitution. Therefore, the inserted paragraph that states the incentive amount that will be subject to investment incentive exemption in determining tax base cannot exceed 25% of the respective income has been revoked by the Constitutional Court's meeting held on 9th February 2012. As the related paragraph has been revoked upon the resolution of the Constitutional Court No: E. 2010/93 K. 2012/20 on 9th February 2012, the application of the related phrase has been ceased to avoid any losses and unfavourable circumstances that may arise from the application the phrase until the resolution will be published in the Official Gazette.

   The effect of the Constitutional Court's resolution has not been reflected in the financial statements prepared as of 31 December 2011 as the related resolution has not been published in the Official Gazette and there is still uncertainty on the outcome of the stay of execution of the related phrase in the preparation of income tax return in 2011. The Bank has recognized deferred tax assets for its unused investment incentive; therefore, if the effect of the Constitutional Court's resolution would have been reflected in the financial statements prepared as of 31 December 2011, the Bank's net income for the period will remain constant and there would be a reclassification between the deferred tax and current tax.

2. The Bank sold %97 portion of its non- performing loan portfolio amounting to TL 21,939 with %100 provision amounting to TL 21,939 on 28 March 2012, for TL 439 to Nurol Holding A.Ş. As a result of this sale, the loan portfolio and the related provisions are derecognized and TL 439 profit is recognized in other income.