NURUL YATIRIM BANKASI ANONİM ŞİRKETİ

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2010

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 2010, 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.

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 amount 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 in the prior year, rather than the current year, the Bank's deferred tax assets and net profit would increase by TL 407 Thousand as of and for the year ended 31 December 2009.

Qualified Opinion

6. In our opinion, except for the 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 2010 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.

Other Matter

8. Financial statements of the Bank for the year ended 31 December 2009 were audited by another auditor. The previous independent auditor expressed an unqualified opinion in their audit report dated 10 March 2010 on the financial statements as of 31 December 2009 emphasising that 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 BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MUŞAVİRLİK A.Ş.

Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Istanbul, 22 April 2011

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NUROL YATIRIM BANKASI ANONİM ŞİRKETİ

Statement of Financial Position
As of 31 December 2010

(Currency - In thousands of Turkish Lira)

	Note	31 December 2010	31 December 2009
Assets			
Cash and cash equivalents	*4*	51,314	27,965
Reserve deposits at Central Bank	*5*	10,508	10,700
Held for trading investments	*6*	1,092	4,133
Available for sale investments	*7*	20,560	20,320
Loans and advances to customers	*8*	119,419	98,148
Property and equipment	*9*	650	345
Intangible assets	*10*	544	138
Investment property	*11*	10,320	10,434
Deferred tax assets	*16*	980	-
Other assets	*12*	1,669	2,532
Total assets		**217,056**	**174,715**
Liabilities			
Funds borrowed	*13*	156,670	115,575
Other liabilities	*14*	2,982	3,709
Provisions	*15*	978	660
Deferred tax liabilities	*16*	-	146
Total liabilities		**160,630**	**120,090**
Equity			
Share capital	*18*	45,000	45,000
Reserves	*18*	6,191	4,419
Retained earnings		5,235	5,206
Total equity		**56,426**	**54,625**
Total liabilities and equity		**217,056**	**174,715**

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 2010
(Currency - In thousands of Turkish Lira)

	Note	1 January- 31 December 2010	1 January- 31 December 2009
Interest income	*19*	10,699	13,776
Interest expense	*19*	(5,669)	(5,458)
Net interest income		**5,030**	**8,318**
Fee and commission income	*20*	2,974	2,282
Fee and commission expense	*20*	(337)	(252)
Net fee and commission income		**2,637**	**2,030**
Net trading income / (loss)	*19*	976	835
Other operating income	*22*	1,011	800
		1,987	**1,635**
Operating income		**9,654**	**11,983**
Net impairment loss on financial assets	*8*	(1,377)	(749)
Personnel expenses	*23*	(3,929)	(3,765)
Depreciation and amortisation	*9,10,11*	(293)	(489)
Administrative expenses	*24*	(4,537)	(3,605)
Profit before income tax		**(482)**	**3,375**
Income tax benefit / (expense)	*16*	511	(700)
Profit from continued operations		**29**	**2,675**
Income from discontinued operations		-	-
Income tax provision from discontinued operations		-	-
Profit from discontinued operations		**-**	**-**
Profit for the year		**29**	**2,675**
Other comprehensive income			
Available-for-sale financial assets			
Gains(Loss) arising during the year		1,133	3,877
Less: Reclassification adjustments for gains included in profit or loss		24	-
Income tax relating to components of other comprehensive income	*16*	615	(757)
Other comprehensive income for the year, net of income tax		**1,772**	**3,120**
Total comprehensive income for the year		**1,801**	**5,795**

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 2010

(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 attributable to equity holders of the Bank	Non-controlling interest	Total equity
Balances at 1 January 2009		**45,000**	**-**	**635**	**664**	**2,531**	**48,830**	**-**	**48,830**
Total comprehensive income for the year									
- Profit for the year		-	-	-	-	2,675	2,675	-	2,675
Other comprehensive income for the year, net of tax	*18*	-	-	3,120	-	-	3,120	-	3,120
Total other comprehensive income		**-**	**-**	**3,120**	**-**	**-**	**3,120**	**-**	**3,120**
Total comprehensive income for the year		**-**	**-**	**3,120**	**-**	**2,675**	**5,795**	**-**	**5,795**
Balance at 31 December 2009		**45,000**	**-**	**3,755**	**664**	**5,206**	**54,625**	**-**	**54,625**
Balances at 1 January 2010		**45,000**	**-**	**3,755**	**664**	**5,206**	**54,625**	**-**	**54,625**
Total comprehensive income for the year									
- Profit for the year		-	-	-	-	29	29	-	29
Other comprehensive income for the year, net of tax	*18*	-	-	1,772	-	-	1,772	-	1,772
Total other comprehensive income		**-**	**-**	**1,772**	**-**	**-**	**1,772**	**-**	**1,772**
Total comprehensive income for the year		**-**	**-**	**1,772**	**-**	**29**	**1,801**	**-**	**1,801**
Balance at 31 December 2010		**45,000**	**-**	**5,527**	**664**	**5,235**	**56,426**	**-**	**56,426**

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

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ

Statement of Cash Flows

For the year ended 31 December 2010

(Currency - In thousands of Turkish Lira)

	Note	1 January- 31 December 2010	1 January- 31 December 2009
Cash flows from operating activities			
Net profit for the year		29	2,675
Adjustments:			
Depreciation and amortisation		293	489
Deferred tax	*16*	(511)	700
Provision for loan losses	*8*	1,424	754
Other provisions		556	153
Accruals		2,253	-
		4,044	**4,771**
Changes in operating assets and liabilities			
Change in held for trading investments		2,461	(1,367)
Change in loans and advances to customers		(24,331)	(20,394)
Change in reserve deposits		192	(5,841)
Change in other assets		863	3,699
Change in other liabilities		(965)	699
Change in borrowings		41,369	34,181
Net cash provided by / (used in) operating activities		**23,633**	**15,748**
Cash flows from investing activities			
Purchase of available for sale investments		(9,146)	(2,797)
Proceed from sale of available for sale investments		9,749	1,923
Purchase of investment property		(61)	(7,372)
Purchase of property and equipment	*9*	(333)	(363)
Proceeds from sale of property and equipment		-	1
Purchase of intangible assets	*10*	(496)	(187)
Net cash used in investing activities		**(287)**	**(8,795)**
Net cash provided by financing activities		**-**	**-**
Net increase / (decrease) in cash and cash equivalents		**23,346**	**6,953**
Cash and cash equivalents at 1 January		27,965	21,012
Cash and cash equivalents at 31 December		**51,311**	**27,965**

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 AŞ	35,171	78.16
Nurol İnşaat ve Tic. AŞ	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 29 firms within the Nurol Group and 19 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*
Dr. Dursun Ali Alp	*Board Member (Audit Committee Member)*
Pınar Cengiz	*Board Member – General Manager*

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 IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (as part of Improvements to IFRSs issued in 2009)	The amendments to IFRS 5 clarify that the disclosure requirements in IFRSs other than IFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those IFRSs require (i) specific disclosures in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations, or (ii) disclosures about measurement of assets and liabilities within a disposal group that are not within the scope of the measurement requirement of IFRS 5 and the disclosures are not already provided in the financial statements.
Amendments to IAS 7 Statement of Cash Flows (as part of Improvements to IFRSs issued in 2009)	The amendments to IAS 7 specify that only expenditures that result in a recognized asset in the statement of financial position can be classified as investing activities in the statement of cash flows. The application of the amendments to IAS 7 has resulted in a change in the presentation of cash outflows in respect of development costs that do not meet the criteria in IAS 38 Intangible Assets for capitalisation as part of an internally generated intangible asset.
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.

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

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

IFRS 3 (revised in 2008) Business Combinations

IFRS 3 (revised), "Business Combinations" and consequential amendments to IAS 27, "Consolidated and separate financial statements", IAS 28, "Investments in associates", and IAS 31, "Interests in joint ventures", are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after July 1, 2009. This is not relevant to the Bank, as there is no business combination.

IAS 27 (revised in 2008) Consolidated and Separate Financial Statements

In prior years, in the absence of specific requirements in IFRSs, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognized, when appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the adjustment to the non-controlling interests was recognized in profit or loss. Under IAS 27 (2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires a Group to derecognise all assets, liabilities and non-controlling interests at their carrying amount and to recognise the fair value of the consideration received. Any retained interest in the former subsidiary is recognized at its fair value at the date control is lost. The resulting difference is recognized as a gain or loss in profit or loss. This is not relevant to the Bank, as it has no subsidiary.

IAS 28 (revised in 2008) Investments in Associates

The principle adopted under IAS 27 (2008) that a loss of control is recognized as a disposal and re-acquisition of any retained interest at fair value is extended by consequential amendments to IAS 28. Therefore, when significant influence over an associate is lost, the investor measures any investment retained in the former associate at fair value, with any consequential gain or loss recognized in profit or loss.

As part of *Improvements to IFRSs* issued in 2010, IAS 28 (2008) has been amended to clarify that the amendments to IAS 28 regarding transactions where the investor loses significant influence over an associate should be applied prospectively. This is not relevant to the Bank, as it has no investment in associates.

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

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

IFRIC 17, "Distributions of non-cash assets to owners", effective for annual periods beginning on or after July 1, 2009. This is not currently applicable to the Bank, as it has not made any non-cash distributions.

IFRIC 18, "Transfers of assets from customers", effective for transfer of assets received on or after July 1, 2009. This is not relevant to the Bank, as it has not received any assets from customers.

"Additional exemptions for first-time adopters" (Amendment to IFRS 1) was issued in July 2009. The amendments are required to be applied for annual periods beginning on or after January 1, 2010. This is not relevant to the Bank, as it is an existing IFRS preparer.

IFRS 2, "Share-based Payments – Group Cash-settled Share Payment Arrangements" is effective for annual periods beginning on or after January 1, 2010. This is not currently applicable to the Bank, as the Bank does not have share-based payment plans.

Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (as part of Improvements to IFRSs issued in 2008) clarify that all the assets and liabilities of a subsidiary should be classified as held for sale when the Bank is committed to a sale plan involving loss of control of that subsidiary, regardless of whether the Bank will retain a non-controlling interest in the subsidiary after the sale. This is not relevant to the Bank, as the Bank has no subsidiary.

Improvements to International Financial Reporting Standards 2009 were issued in April 2009. The improvements cover 12 main standards/intepretations as follows: IFRS 2 *Share-based Payments*, IFRS 8 *Operating Segments*, IAS 1 *Presentation of Financial Statements*, IAS 17 *Leases*, IAS 18 *Revenue*, IAS 36 *Impairment of Assets*, IAS 38 *Intangible Assets*, IAS 39 *Financial Instruments: Recognition and Measurement*, IFRIC 9 *Reassessment of Embedded Derivatives*, IFRIC 16 *Hedges of Net Investment in a Foreign Operation*. The effective dates vary standard by standard but most are effective January 1, 2010.

2.3.4 New and Revised IFRSs in issue but not yet effective

IFRS 1 (amendments) ***First-time Adoption of IFRS – Additional Exemptions and Two Other Amendments***
Amendments to IFRS 1 which are effective for annual periods on or after July 1, 2010 provide limited exemption for first time adopters to present comparative IFRS 7 fair value disclosures.

On 20 December, IFRS 1 is amended to;

- provide relief for first-time adopters of IFRSs from having to reconstruct transactions that occurred before their date of transition to IFRSs.

- provide guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time.

The amendment above will be effective for annual periods beginning on or after July 1, 2011. These amendments are not relevant to the Bank, as it is an existing IFRS preparer.

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

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

IFRS 7 *Financial Instruments: Disclosures*

In October 2010, IFRS 7 *Financial Instruments: Disclosures* is amended by IASB as part of its comprehensive review of off balance sheet activities. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The amendment will be effective for annual periods beginning on or after July 1, 2011. The Bank has not yet had an opportunity to consider the potential impact of the adoption of this revised standard.

IFRS 9 *Financial Instruments: Classification and Measurement*

In November 2009, the first part of IFRS 9 relating to the classification and measurement of financial assets was issued. IFRS 9 will ultimately replace IAS 39 *Financial Instruments: Recognition and Measurement*. The standard requires an entity to classify its financial assets on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset, and subsequently measure the financial assets as either at amortized cost or at fair value. The new standard is mandatory for annual periods beginning on or after January 1, 2013. The Bank has not had an opportunity to consider the potential impact of the adoption of this standard.

IAS 12 *Income Taxes*

In December 2010, IAS 12 is amended. IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 *Investment Property*. The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will, normally be, be through sale. The amendment will be effective for annual periods beginning on or after January 1, 2012. The Bank has not yet had an opportunity to consider the potential impact of the adoption of this revised standard.

IAS 24(Revised 2009) *Related Party Disclosures*

In November 2009, IAS 24 Related Party Disclosures was revised. The revision to the standard provides government-related entities with a partial exemption from the disclosure requirements of IAS 24. The revised standard is mandatory for annual periods beginning on or after January 1, 2011. The Bank has not yet had an opportunity to consider the potential impact of the adoption of this revised standard.

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

The amendments to IAS 32 and IAS 1 are effective for annual periods beginning on or after February 1, 2010. The amendments address the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously, such rights issues were accounted for as derivative liabilities. However, the amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated. The Bank has not yet had an opportunity to consider the potential impact of the adoption of this amendment to the standard.

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

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

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

Amendments to IFRIC 14 are effective for annual periods beginning on or after January 1, 2011. The amendments affect entities that are required to make minimum funding contributions to a defined benefit pension plan and choose to pre-pay those contributions. The amendment requires an asset to be recognized for any surplus arising from voluntary pre-payments made. The Bank does not expect any impact of the adoption of this amendment on the financial statements.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

IFRIC 19 is effective for annual periods beginning on or after July 1, 2010. IFRIC 19 addresses only the accounting by the entity that issues equity instruments in order to settle, in full or part, a financial liability. The Bank has not yet had an opportunity to consider the potential impact of the adoption of this amendment to the standard.

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 7 main standards/intepretations as follow: IFRS 1 *First-time Adoption of International Financial Reporting Standards*; IFRS 3 *Business Combinations;* IFRS 7 *Financial Instruments: Disclosures*; 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 July 1, 2010, all other amendments are effective on or after January 1, 2011. Early adoption of these amendments are allowed. The Bank has not yet had an opportunity to consider the potential impact of the adoption of these amendments to the standards.

2.4 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 2010 are authorised for issue by the management on 22 April 2011. 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 2009	1.490	2.107
31 December 2010	1.548	2.070

3.5 Interest

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 *(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.

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 Group 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:

2010	Retail banking	Corporate banking	Investment banking	Other	Total operations of the Bank
Operating income	48	9,342	615	-	10,005
Operating expenses	-	(10,487)	-	-	(10,487)
Profit before income tax	48	(1,145)	615	-	(482)
Income tax income/expense	-	511	-	-	511
Profit from continued operations	48	(634)	615	-	29
Profit from discontinued operations	-	-	-	-	-
Profit for the year	**48**	**(634)**	**615**	**-**	**29**
31 December 2010					
Segment assets	338	215,731	-	-	216,069
Non-distributed Asset	-	-	-	987	987
Total assets	**338**	**215,731**	**-**	**987**	**217,056**
Segment liabilities	-	160,630	-	-	160,630
Shareholders’ equity	-	-	-	56,426	56,426
Total liabilities	**-**	**160,630**	**-**	**56,426**	**217,056**

(Currency - In thousands of Turkish Lira)

3. Significant accounting policies *(continued)*

3.19 Segment reporting *(continued)*

2009	**Retail banking**	**Corporate Banking**	**Investment banking**	**Other**	**Total operations of the Bank**
Operating income	98	11,357	528	-	11,983
Operating expenses	-	(8,608)	-	-	(8,608)
Profit before income tax	98	2,749	528	-	3,375
Income tax expense	-	(700)	-	-	(700)
Profit from continued operations	98	2,049	528	-	2,675
Profit from discontinued operations	-	-	-	-	-
Profit for the year	**98**	**2,049**	**528**	**-**	**2,675**
31 December 2009					
Segment assets	203	174,512	-	-	174,715
Total assets	**203**	**174,512**	**-**	**-**	**174,715**
Segment liabilities	-	120,090	-	-	120,090
Shareholders' equity	-	-	-	54,625	54,625
Total liabilities	**-**	**120,090**	**-**	**54,625**	**174,715**

Geographical concentration

	Assets	**Liabilities**	**Non-cash loans**	**Capital expendi-tures**	**Net profit / (loss)**
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**
2009					
Domestic	138,209	153,372	209,445	6,472	2,969
European Union countries	16,217	21,267	-	9,534	(298)
OECD countries	15	-	-	-	10
USA, Canada	4,268	-	-	-	(6)
Other countries	-	76	-	-	-
Total	**158,709**	**174,715**	**209,445**	**16,006**	**2,675**

3. Significant accounting policies *(continued)*

3.20. Use of estimates and judgements

Management decides to the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (see note 25).

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

	2010	**2009**
Cash and balances with central banks	289	7,516
- *Cash on hand*	*151*	*191*
- *Balances with central banks*	*138*	*7,325*
Due from banks and financial institutions	51,025	20,449
Cash and cash equivalents in the balance sheet	**51,314**	**27,965**

As at 31 December 2010 and 2009, the details of the balances with central banks and due from banks and financial institutions are as follows:

	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**		

	2009			
	Amount		**Effective interest rate**	
	Turkish Lira	**Foreign currency**	**Turkish Lira**	**Foreign currency**
Balances with Central Bank	7,303	22	-	-
Due from banks and financial institutions	13	20,436	10.54%	USD-0.23% EUR-0.36%
Total	**7,316**	**20,458**		

5. Reserve deposits at Central Bank

	2010	**2009**
Turkish Lira	356	1,095
Foreign currency	10,152	9,605
	10,508	**10,700**

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 at 31 December 2010, required reserve ratios for TL and foreign currency liability accounts with the Turkish Central Bank are 6% and 11% (2009 – 5% and 9%), respectively.

As at 31 December 2010, the interest rates applied for reserve deposits are raised to 6% from 5% for TL reserve deposits and to 11% from 10% for foreign currency reserve deposits and interest payment to TL and FC is terminated effective from 1 October 2010.

(Currency - In thousands of Turkish Lira)

6. Held for trading investments

	2010	2009
Debt instruments		
Turkish government bonds-TL denominated	1,092	4,133
Total held for trading investments	**1,092**	**4,133**

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

	2010		2009	
	Amount	Effective interest rate	Amount	Effective interest rate
Available-for-sale investments at fair value				
Debt instruments				
Turkish government bonds – TL denominated, net	3,330	6.59%	4,314	13.27%
- *Gross amount*	*3,330*		*4,314*	
- *Impairment on government bonds*	-		-	
Equity instruments – listed [(a)]	7,696	6.60%	6,422	-
Equity instruments – unlisted [(b)]	9,534	-	9,534	-
Total available-for-sale investments at fair value	**20,560**		**20,270**	
Available-for-sale investment at cost				
Equity instruments – unlisted	-		50	
Total available-for-sale investments	**20,560**		**20,320**	

(a) As per the Board of Directors' resolution numbered 353, dated 5 January 2009, the Bank decided to purchase a total of 1,900,000,000 group B shares, with a nominal value of TL 1,900 per share, out of the total 5,096,940,000 shares of Nurol İnşaat ve Ticaret AŞ's shares in Nurol Gayrimenkul Yatırım Ortaklığı AŞ.("the Company") with a price calculated over the average closing prices in Istanbul Stock Exchange for 5 days between 5 January 2009 and 9 January 2009. As at 12 January 2009, the Bank purchased the shares with a cost of TL 2,637. The Bank holds 19% of the Company's shares 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 revalued using market price and fair value reserve of TL 5,059 is accounted under other comprehensive income (31 December 2009: TL 3,785) in the accompanying financial statements.

(b) The Bank holds 25.03% of the shares of Nurol International B.V, a Nurol Group company. Since the Bank has no significant influence on the Company, investment amount is accounted under available for sale investments. The fair value of shares is determined according to "discounted cash flow method" prepared by an independent appraisal company. According to this appraisal report, the fair value representing the shareholding percentage of the Bank is determined as Euro 5,417 thousand and recorded at the rate of exchange prevailing on the date of the appraisal as TL 9,534 and the valuation difference of TL 710 (net of tax) is recorded under other comprehensive income in the accompanying financial statements as of 31 December 2010 and 2009. The Bank assesses the shares for impairment at each reporting date. As at 31 December 2010 no impairment has been identified on the carrying value of the Company (31 December 2009: No impairment).

(Currency - In thousands of Turkish Lira)

8. Loans and advances to customers

	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**

	2009			
	Amount			
	TL	**Foreign currency**	**Foreign currency indexed**	**Total**
Finance lease receivables	1	516	-	517
Short-term loans	31,931	60,275	95	92,301
Medium and long-term loans	-	4,009	-	4,009
Total performing loans	**31,932**	**64,800**	**95**	**96,827**
Non performing loans	23,863	-	-	23,863
Less: Reserve for possible loan losses	(22,542)	-	-	(22,542)
Total loans, net	**33,253**	**64,800**	**95**	**98,148**

(Currency - In thousands of Turkish Lira)

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

Movements in non-performing loans:

	2010	**2009**
Reserve at beginning of year	22,542	21,793
Provision for possible loan losses	1,424	754
Recoveries	(47)	(5)
Provision, net of recoveries	1,377	749
Reserve at end of period	**23,919**	**22,542**

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

	2010	**2009**
Gross investment in finance leases, receivable:		
Less than one year	201	1
Between one and five years	33	576
	234	**577**
Unearned future income on finance leases	(18)	(60)
Net investment in finance leases	**216**	**517**
The net investment in finance leases comprises:		
Less than one year	184	1
Between one and four years	32	516
	216	**517**

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 2009	1,987	1,327	157	3,471
Acquisitions	360	-	3	363
Disposals	-	-	(1)	(1)
Balance at 31 December 2009	**2,347**	**1,327**	**159**	**3,833**
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**
Depreciation				
Balance at 1 January 2009	(1,898)	(1,284)	(134)	(3,316)
Depreciation for the year	(154)	(17)	(1)	(172)
Disposals	-	-	-	-
Balance at 31 December 2009	**(2,052)**	**(1,301)**	**(135)**	**(3,488)**
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)**
Carrying amounts				
Balance at 31 December 2009	295	26	24	345
Balance at 31 December 2010	547	17	86	650

As of 31 December 2010 tangible assets were insured to the extent of TL 1,307 (2009 – TL 758) 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 2009	2,133	2,133
Additions	187	187
Balance at 31 December 2009	**2,320**	**2,320**
Balance at 1 January 2010	2,320	2,320
Additions	496	496
Balance at 31 December 2010	**2,816**	**2,816**
Amortisation and impairment		
Balance at 1 January 2009	(2,078)	(2,078)
Amortisation charge for the year	(104)	(104)
Balance at 31 December 2009	**(2,182)**	**(2,182)**
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)**
Carrying amounts		
Balance at 31 December 2009	138	138
Balance at 31 December 2010	544	544

11. Investment property

	2010	2009
Investment property	10,320	10,434
	10,320	**10,434**

As of 31 December 2010 and 2009, Bank’s investment property comprise the building (flour plant) purchased from a loan customer with a payment exceeding the receivable amount. As of balance sheet date, investment property has a net book value amounting to TL 10,320 (31 December 2009: TL 10,434). This property is rented by bank and rent agreement continues as of 31 December 2010. In current period, rent income according to this rent agreement is TL 838 (31 December 2009: TL 521).

The investment property has a fair value of TL 16,810 based on a cost value model. The fair value is calculated on the basis of a cost model carried out at 2 November 2010 by independent real estate appraisal company.

(Currency - In thousands of Turkish Lira)

12. Other assets

	2010	2009
Receivables from sale of a subsidiary	1,023	2,123
Others	646	409
	1,669	**2,532**

13. Funds borrowed

	2010			2009		
	TL	**Foreign currency**	**Total**	**TL**	**Foreign currency**	**Total**
Funds borrowed	37,066	116,166	153,232	7,302	101,237	108,539
Obligations under repurchase agreements	3,438	-	3,438	7,036	-	7,036
	40,504	**116,166**	**156,670**	**14,338**	**101,237**	**115,575**

The effective interest rate for funds borrowed denominated in USD is 4.6% (2009 – 2.4%), in EUR is 3.9% (2009 – 1.2%) and in TL is 7.1% (2009 – 7.8%). As at 31 December 2010 and 2009, funds borrowed have fixed interest rates.

As at 31 December 2010 and 2009, 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 2010 (2009 – none).

14. Other liabilities

	2010	2009
Current accounts of loan customers	2,399	3,361
Taxes and funds payable	330	251
Others	253	97
	2,982	**3,709**

(Currency - In thousands of Turkish Lira)

15. Provisions

	2010	**2009**
Employee termination benefits	350	221
Bonus accrual	-	175
Vacation pay liability	207	168
Other	421	96
	978	**660**

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

	2010	**2009**
At 1 January	221	234
Decrease during the year	129	(13)
At 31 December	**350**	**221**

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 2,517.01 and TL full 2,365.16 at 31 December 2010 and 2009, 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 2010 and 2009, 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 annual ceiling has been increased to TL full 2,623.23 effective from 1 January 2011.

The principal actuarial assumptions used at the balance sheet dates are as follows:

	2010	**2009**
Discount rate	4.66%	5.92%
Expected severance payment benefit ratio	100%	100%

(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:

	2010	2009
Current tax		
Current income tax	-	-
Deferred income / (expense) tax		
Relating to origination and reversal of temporary differences	511	(700)
Income tax expense reported in the income statement	**511**	**(700)**

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 2010 and 2009 is as follows:

	2010	2009
Profit before income tax	(482)	3,375
Income tax using the domestic corporation tax rate 20% (2009 – 20%)	96	(675)
Tax losses used	-	734
Disallowable expenses	(29)	(759)
Effect of investment incentive	444	-
Total income tax expense in the profit or loss	**511**	**(700)**

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

	2010	2009
Deferred tax assets, net at 1 January	(146)	1,311
Deferred tax recognised in the profit or loss	511	(700)
Deferred income tax recognised in other comprehensive income	615	(757)
Deferred tax assets/(liabilities), net at end of the year	**980**	**(146)**

(Currency - In thousands of Turkish Lira)

16. Taxation *(continued)*

Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2010			2009		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Tax losses	697	-	697	646	-	646
Liability for defined benefit plans	70	-	70	44	-	44
Valuation of available for sale financial assets	-	(289)	(289)	-	(906)	(906)
Investment incentive	444	-	444	-	-	-
Other provisions	58	-	58	70	-	70
	1,269	**(289)**	**980**	**760**	**(906)**	**(146)**

Movements in temporary differences during the year

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	26	-	70
Valuation of available for sale financial assets	(906)	2	615	(289)
Investment incentive	-	444	-	444
Other	70	(12)	-	58
	(146)	**511**	**615**	**980**

2009	**Balance at 1 January**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Balance at 31 December**
Tax losses	1,358	(712)	-	646
Liability for defined benefit plans	47	(3)	-	44
Valuation of available for sale financial assets	(149)	-	(757)	(906)
Other provisions	55	15	-	70
	1,311	**(700)**	**(757)**	**(146)**

(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 2010 and 2009; commitments and contingencies comprised the following:

	2010	**2009**
Letters of guarantee	274,213	203,376
Letters of credit	5,352	6,069
Other commitments	268	233
Total	**279,833**	**209,678**

(Currency - In thousands of Turkish Lira)

18. Share capital and reserves

Share capital

As at 31 December 2010 and 2009, the composition of shareholders and their respective percentage of ownership are summarised as follows:

	2010		2009	
	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 2010 and 2009, 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 2010, the Company’s legal reserves amounted to TL 664 (2009 – TL 664).

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 2009	635
Net change in fair value of available-for-sale financial assets	3,120
At 31 December 2009	**3,755**
At 1 January 2010	3,755
Change in fair value of available-for-sale financial assets (net of tax)	1,772
At 31 December 2010	**5,527**

(Currency - In thousands of Turkish Lira)

19. Net interest income

	2010	2009
Interest income		
Loans and advances to customers	9,605	10,555
Deposits with banks and other financial institutions	194	844
Held for trading and available for sale investments	842	1,628
Financial leases	40	664
Other	18	85
	10,699	**13,776**
Interest expense		
Funds borrowed	5,361	5,119
Interbank funds borrowed	308	339
	5,669	**5,458**
Net interest income	**5,030**	**8,318**

20. Net fee and commission income

	2010	2009
Fee and commission income		
Non-cash loans	2,227	1,545
Other	747	737
Total fee and commission income	**2,974**	**2,282**
Fee and commission expense		
Non-cash loans	-	3
Other	337	249
Total fee and commission expense	**337**	**252**
Net fee and commission income	**2,637**	**2,030**

21. Net trading income / (loss)

	2010	2009
Gain / (loss) on foreign exchange rate fluctuations	395	822
Gain / (loss) from securities	40	(5)
Gain / (loss) on derivatives	541	18
Total	**976**	**835**

(Currency - In thousands of Turkish Lira)

22. Other operating income

	2010	2009
Rent income	838	521
Dividend income	31	139
Communication income	60	56
Other	82	84
Total	**1,011**	**800**

23. Personnel expenses

	2010	2009
Wages and salaries	2,729	2,684
Compulsory social security obligations	390	322
Other fringe benefits	3	10
Other benefits	807	749
Total	**3,929**	**3,765**

24. Administrative expenses

	2010	2009
Subscription fees	1,137	1,074
Rent expenses	527	463
Telecommunication expenses	430	413
Audit and advisory expenses	235	400
Notary expenses	499	279
Computer expenses	138	188
Maintenance expenses	184	168
Transportation expenses	154	168
Taxes and duties expenses	134	106
Office supplies	47	41
Hosting expenses	44	38
Advertising expenses	10	24
Other various administrative expenses	998	243
Total	**4,537**	**3,605**

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
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**
2009				
Performing loans	321	94,892	517	95,730
Loans under close monitoring	-	1,097	-	1,097
Non-performing loans	-	23,863	-	23,863
Gross	**321**	**119,852**	**517**	**120,690**
Reserve for possible loan losses	-	(22,542)	-	(22,542)
Total	**321**	**97,310**	**517**	**98,148**

(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*	**2010**	**2009**	**2010**	**2009**
Carrying amount		**51,025**	**20,449**	**119,419**	**98,148**
Individually impaired					
- Non-performing financial assets		-	-	26,960	23,863
Gross amount		**-**	**-**	**26,960**	**23,863**
Reserve for possible loan losses	*8*	**-**	**-**	(23,919)	(22,542)
Carrying amount		**-**	**-**	**3,041**	**1,321**
Past due but not impaired		-	-	-	-
Carrying amount		**-**	**-**	**-**	**-**
Neither past due nor impaired		51,025	20,449	116,378	96,827
Carrying amount		**51,025**	**20,449**	**116,378**	**96,827**
Carrying amount (amortised cost)	*4, 8*	**51,025**	**20,449**	**119,419**	**98,148**

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	**2010**	**2009**
Secured cash loans	49,214	59,473
Secured by cash collateral	*46,440*	*44,700*
Personal guarantees	*484*	*7,744*
Secured by mortgages	*1,300*	*3,049*
Secured by customer cheques & acts	*774*	*3,463*
Leasing	*216*	*517*
Non-secured cash loans	65,825	34,184
Accrued interest income on loans	1,339	3,170
Total performing cash loans	**116,378**	**96,827**

Non-cash loans[(1)]	**2010**	**2009**
Secured non-cash loans	134,610	88,000
Personal guarantees	*134,062*	*82,536*
Secured by mortgages	-	*1,871*
Secured by cash collateral	*446*	*444*
Secured by customer cheques & acts	*102*	*3,149*
Non-secured non cash loans	144,955	121,445
Total non-cash loans	**279,565**	**209,445**

(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**	
	2010	**2009**	**2010**	**2009**
Banks	51,025	20,449	-	-
Manufacturing	-	-	49,815	54,293
Mining	-	-	*46,498*	*100*
Production	-	-	*3,317*	*7,626*
Natural resources	-	-	-	*46,567*
Construction	-	-	23,432	21,445
Services	-	-	39,547	17,611
Wholesale and retail trade	-	-	*4,743*	*1,162*
Hotel, food and beverage services	-	-	*34,657*	*16,198*
Financial institutions	-	-	-	-
Educational services	-	-	*20*	*29*
Health and social services	-	-	*127*	*222*
Other	-	-	3,584	3,478
Non performing loans, net	-	-	3,041	1,321
Total	**51,025**	**20,449**	**119,419**	**98,148**

Concentration risk by location

		Due from banks		**Loans and advances to customers**	
	Notes	**2010**	**2009**	**2010**	**2009**
Turkey		50,101	4,232	116,253	95,018
Europe		290	16,217	3,166	3,130
Other		634	-	-	-
	4, 8	**51,025**	**20,449**	**119,419**	**98,148**

Held for trading investments

At 31 December 2010, the Bank has held for trading investments, of TL 1,092 (2009 – TL 4,133). An analysis of the credit quality of the maximum credit exposure is as follows:

	Note	**2010**	**2009**
Government bonds and treasury bills	*6*	1,092	4,133
Fair value and carrying amount		**1,092**	**4,133**

(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 2010 and 2009 are as follows:

	First maturity bracket (weekly)		Second maturity bracket (monthly)	
	Foreign currency (%)	**Total (%)**	**Foreign currency (%)**	**Total (%)**
2010 average	182	193	150	161
2009 average	200	238	174	247

As at 31 December 2010 and 31 December 2009, the following table provides the contractual maturities of the Bank's financial liabilities.

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**

31 December 2009

	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	115,575	117,407	85,381	31,913	113	-	-
	115,575	**117,407**	**85,381**	**31,913**	**113**	**-**	**-**

(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 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**

31 December 2009	**Demand**	**Less than one month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Unidentified maturity**	**Total**
Cash and cash equivalents	1,881	26,084	-	-	-	-	-	27,965
Reserve deposits at Central Bank	-	-	10,700	-	-	-	-	10,700
Held for trading investments	-	-	-	4,133	-	-	-	4,133
Available for sale investments	-	-	-	3,137	1,177	-	16,006	20,320
Loans and advances to customers	-	6,086	10,344	76,236	2,548	1,613	1,321	98,148
Other assets	-	-	-	-	-	-	2,532	2,532
Total assets	**1,881**	**32,170**	**21,044**	**83,506**	**3,725**	**1,613**	**19,859**	**163,798**
Funds borrowed	-	45,143	11,448	58,871	113	-	-	115,575
Other liabilities	3,201	-	-	-	-	-	508	3,709
Total liabilities	**3,201**	**45,143**	**11,448**	**58,871**	**113**	**-**	**508**	**119,284**
Liquidity gap	**(1,320)**	**(12,973)**	**9,596**	**24,635**	**3,612**	**1,613**	**19,351**	**44,514**

(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 2010 and 2009 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:

	2010			**2009**		
	Average	**Highest**	**Lowest**	**Average**	**Highest**	**Lowest**
Interest rate risk	46	143	7	82	124	10
Equity price risk	1,153	1,720	942	915	1,076	422
Currency risk	278	589	35	96	212	20
Total value-at-risk	**1,477**	**2,452**	**984**	**1,093**	**1,412**	**452**

(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**
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)

	USD	Euro	JPY	Others	Total
2009					
Assets					
Cash and cash equivalents	3,795	16,250	384	119	20,548
Reserve deposits at Central Bank	853	8,752	-	-	9,605
Loans and advances to customers	64,549	346	-	-	64,895
Available for sale investments	-	9,534	-	-	9,534
Total assets	**69,197**	**34,882**	**384**	**119**	**104,582**
Liabilities					
Funds borrowed	67,293	33,944	-	-	101,237
Other liabilities	1,864	589	373	16	2,842
Total liabilities	**69,157**	**34,533**	**373**	**16**	**104,079**
Gross exposure	**40**	**349**	**11**	**103**	**503**
Off-balance sheet position					
Net notional amount of derivatives	-	-	-	-	-
Net exposure	**40**	**349**	**11**	**103**	**503**

(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 2010 and 2009 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 2009.

Unlisted foreign currency equity instrument is not included in the sensitivity analysis.

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

2009	**Equity**	**Profit or loss**
Euro	(918)	(918)
USD	4	4
Other currencies	11	11
	(903)	**(903)**

A 10 percent strengthening of the TL against the foreign currencies at 31 December 2010 and 2009 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 2010 and 2009:

	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.

	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 2009							
Assets							
Cash and cash equivalents	26,084	-	-	-	-	1,881	27,965
Reserve deposits at Central Bank	-	1,095	-	-	-	9,605	10,700
Held for trading investments	-	-	4,133	-	-	-	4,133
Available for sale investments	-	-	3,137	1,177	-	16,006	20,320
Loans and advances to customers	6,086	10,344	76,236	2,548	1,613	1,321	98,148
Other	-	-	-	-	-	13,449	13,449
Total assets	**32,170**	**11,439**	**83,506**	**3,725**	**1,613**	**42,262**	**174,715**
Liabilities							
Funds borrowed	45,256	11,448	58,871	-	-	-	115,575
Current account of loans customers(1)	-	-	-	-	-	3,361	3,361
Other						55,779	55,779
Total liabilities	**45,256**	**11,448**	**58,871**	**-**	**-**	**59,140**	**174,715**
On balance sheet interest sensitivity gap	**(13,086)**	**(9)**	**24,635**	**3,725**	**1,613**	**16,878**	**-**
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-
Total interest sensitivity gap	**(13,086)**	**(9)**	**24,635**	**3,725**	**1,613**	**16,878**	**-**

(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 2010 and 2009. The sensitivity of equity is calculated by revaluing available for sale financial assets at 31 December 2010 and 2009 for the effects of the assumed changes in interest rates. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

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)
Floating rate financial liabilities	-	-	-	-
Total, net	**48**	**(48)**	**(24)**	**24**

2009	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	(33)	33	(33)	33
Available for sale financial assets	-	-	(39)	39
Floating rate financial assets	61	(61)	61	(61)
Floating rate financial liabilities	-	-	-	-
Total, net	**28**	**(28)**	**(11)**	**11**

(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 2010 and 2009, the summary of average interest rates for different assets and liabilities are as follows:

	2010			2009		
	Euro	**USD**	**TL**	**Euro**	**USD**	**TL**
Assets						
Cash and balances with the Central Bank	-	-	-	-	-	5.20
Due from banks	0.70	0.62	6.43	0.36	0.23	10.54
Held for trading investments	-	-	6.59	-	-	16.05
Available for sale financial assets	-	-	6.60	-	-	13.27
Loans and advances to customers	-	5.32	10.95	-	7.86	13.56
Liabilities						
Other money market deposits	-	-	5.12	-	-	7.68
Funds borrowed	3.84	4.54	7.02	1.15	2.37	7.77

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, 2006, 2007 and 2008. The amount calculated as TL 19,452 as at 31 December 2010 (31 December 2009 – TL 15,340) 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 2010 and 2009 is as follows:

	2010	**2009**
Amount subject to credit risk (I)	244,697	182,248
Amount subject to market risk (II)	20,275	14,200
Amount subject to operational risk (III)	19,452	15,340
Total risk-weighted assets and value at market risk and operational risk (IV) = (I+II+II)	**284,424**	**211,788**
Shareholders' equity:		
Tier 1 capital	49,407	49,490
Tier 2 capital	3,363	2,870
Total regulatory capital	**52,770**	**52,360**
Capital adequacy ratio	**18.55%**	**24.72%**

(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
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.

	Notes	Trading	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value
2009							
Cash and cash equivalents	*4*	-	27,965	-	-	27,965	27,965
Reserve deposits at Central Bank	*5*	-	10,700	-	-	10,700	10,700
Held for trading investments	*6*	4,133	-	-	-	4,133	4,133
Available for sale investments	*7*	-	-	20,320	-	20,320	20,320
Loans and advances to customers	*8*	-	98,148	-	-	98,148	99,713
		4,133	**136,813**	**20,320**	**-**	**161,266**	**162,831**
Funds borrowed	*13*	-	-	-	115,575	115,575	115,575
Current account of loan customers(1)	*14*	-	-	-	3,361	3,361	3,361
		-	**-**	**-**	**118,936**	**118,936**	**118,936**

(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:

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**

2009	***Note***	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets					
Held for trading investments	*6*	4,133	-	-	4,133
Available for sale investments	*7*	10,736	-	9,534	20,270
		14,869	**-**	**9,534**	**24,403**

(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:

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%

2009	**Balance**	**Percentage of the financial statement amount (%)**
Cash loans	82,952	85%
Non-cash loans	126,134	60%
Funds borrowed / Current accounts of loan customers	69,358	75%
Other	2,123	38%

As at 31 December 2010, no provisions have been recognised in respect of loans given to related parties (2009 – none).

Interest and commission income from related parties for the year ended 31 December 2010 is amounting to TL 7,358 for cash loans and TL 1,306 for non-cash loans (31 December 2009: Bank was not able to provide profit or loss balances from related parties).

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 994 (2009 – TL 746) comprising salaries and other benefits.

27. Events after balance sheet date

None.