KPMG

GSD Yatırım Bankası Anonim Şirketi

Financial Statements
As at and for the Year Ended
31 December 2011
Together With
Independent Auditors' Report

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi

9 April 2012

This report contains 1 page of independent auditors' report and 47 pages of financial statements together with explanatory notes.

GSD Yatırım Bankası Anonim Şirketi

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Independent Auditors' Report

To the Board of Directors of
GSD Yatırım Bankası Anonim Şirketi;

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

Management's responsibility for the financial statements

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

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 about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider 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 principles 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 audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Akis Bağımsız Denetim ve SMMM A.Ş.

9 April 2012
Istanbul, Turkey

GSD Yatırım Bankası AŞ

Statement of Financial Position
As at 31 December 2011
(Currency -Thousands of Turkish Lira (TL))

	Notes	2011	2010
Assets			
Cash and balances with Central Bank	*12*	2,099	1,063
Due from banks	*13*	128	122
Trading assets	*14*	457	3,422
Derivative financial instruments	*15*	-	1
Loans and advances to customers	*16*	141,541	89,751
Tangible assets	*17*	85	138
Intangible assets	*18*	53	42
Deferred tax assets	*19*	339	215
Other assets	*20*	3,592	1,903
Total assets		**148,294**	**96,657**
Liabilities			
Derivative financial instruments	*15*	13	28
Current accounts of loan customers	*21*	51,633	7,807
Other money market deposits	*22*	-	2,400
Funds borrowed	*23*	16,552	12,891
Provisions	*24*	439	324
Income taxes payable	*11*	651	167
Other liabilities	*25*	4,055	2,282
Total liabilities		**73,343**	**25,899**
Shareholders' equity			
Share capital	*26*	50,000	50,000
Adjustment to share capital	*26*	2,713	2,713
Fair value reserve		-	-
Retained earnings		22,238	18,045
Total equity		**74,951**	**70,758**
Total liabilities and equity		**148,294**	**96,657**
Commitments and contingencies	*28*		

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

GSD Yatırım Bankası AŞ

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

	Notes	2011	2010
Interest income			
Interest on loans and advances to customers		13,789	9,671
Interest on securities		125	293
Interest on deposits with banks and other financial institutions		34	75
Total interest income		**13,948**	**10,039**
Interest expense			
Interest on funds borrowed and other money market deposits		(1,414)	(1,073)
Interest on current accounts of loan customers		(1,815)	(323)
Interest on other money market placements		(70)	(160)
Total interest expense		**(3,299)**	**(1,556)**
Net interest income		**10,649**	**8,483**
Fees and commission income	7	1,061	989
Fees and commission expense	7	(71)	(84)
Net fee and commission income		**990**	**905**
Net trading gains/(loss)	8	774	(122)
Foreign exchange gains/(loss), net		(998)	118
Other operating income		235	2,358
		11	**2,354**
Operating income		**11,650**	**11,742**
Net impairment loss on financial assets	16, 25	(404)	(575)
Personnel expenses	9	(3,305)	(3,220)
Depreciation and amortisation		(66)	(68)
Taxes other than on income		(372)	(460)
Other operating expenses	10	(2,380)	(2,063)
Profit before income tax		**5,123**	**5,356**
Income tax – current	11	(1,054)	(694)
Income tax – deferred	11	124	16
Net profit for the year		**4,193**	**4,678**
Other comprehensive income			
Fair value reserve (available-for-sale financial assets):			
- Net amount transferred to profit or loss		-	(825)
Other comprehensive income for the year		**-**	**(825)**
Total comprehensive income for the year		**4,193**	**3,853**

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

GSD Yatırım Bankası AŞ

Statement of Changes in Equity

For the year ended 31 December 2011

(Currency -Thousands of Turkish Lira (TL))

	Share capital	Adjustment to Share capital	Fair Value Reserve	Retained Earnings	Total
Balance at 1 January 2010	50,000	4,313	825	11,767	66,905
Reclassification					
Reclassification to retained earnings (Note 2.1)	-	(1,600)	-	1,600	-
Balance at 1 January 2010	50,000	2,713	825	13,367	66,905
Total comprehensive income for the period					
Net profit	-	-	-	4,678	4,678
Other comprehensive income					
Revaluation of premises, net of tax	-	-	-	-	-
Net change in fair value of available-for-sale financial assets, net of tax	-	-	(825)	-	(825)
Total other comprehensive income	-	-	(825)	-	3,853
Total comprehensive income for the period	-	-	(825)	4,678	3,853
Transactions with owners, recorded directly in equity					
Transfer to reserves	-	-	-	-	-
Total transaction with owners	-	-	-	-	-
Balance at 31 December 2010	50,000	2,713	-	18,045	70,758
Total comprehensive income for the period					
Net profit	-	-	-	4,193	4,193
Other comprehensive income					
Revaluation of premises, net of tax	-	-	-	-	-
Net change in fair value of available-for-sale financial assets, net of tax		-	-	-	-
Total other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	-	4,193	4,193
Transactions with owners, recorded directly in equity					
Transfer to reserves	-	-	-	-	-
Total transaction with owners	-	-	-	-	-
Balance at 31 December 2011	50,000	2,713	-	22,238	74,951

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

GSD Yatırım Bankası AŞ

Statement of Cash Flows

For the year ended 31 December 2011

(Currency -Thousands of Turkish Lira (TL))

	Notes	2011	2010
Cash flows from operating activities			
Interest received		13,529	10,124
Interest paid		(3,846)	(1,458)
Fees and commissions received		1,061	905
Trading income		774	257
Recoveries of loans		617	1,143
Fees and commissions paid		(71)	(84)
Cash payments to employees		(3,190)	(5,187)
Vacation pay liability paid		(34)	(26)
Employee termination benefits paid		(15)	(8)
Cash received from other operating activities		464	2,021
Cash paid for other operations		(3,707)	183
Income taxes paid		(570)	(1,002)
Cash flows from operating activities before changes in operating assets and liabilities		**5,012**	**6,868**
Changes in operating assets and liabilities			
Trading assets		2,586	1,314
Reserve deposits at Central Bank of Turkish Republic		(1,301)	520
Loans and advances to customers		(52,103)	(13,878)
Other assets		(2,258)	(27)
Current account of loan customers		44,161	(10,865)
Other money market deposits		(2,400)	2,400
Funds borrowed		3,676	(3,790)
Other liabilities and provisions		2,393	1,652
Net cash used in operating activities		**(5,246)**	**(22,674)**
Cash flows from investing activities			
Proceeds of available-for-sale securities		-	7,173
Purchases of tangible assets	*17*	(659)	(168)
Proceeds from the sale of tangible assets and intangible assets		650	168
Purchase of intangible assets	*18*	(16)	(1)
Net cash provided by / (used in) investing activities		**(25)**	**7,172**
Net decrease in cash and cash equivalents		(259)	(8,634)
Cash and cash equivalents at 1 January	*27*	458	9,092
Cash and cash equivalents at 31 December	*27*	**199**	**458**

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

1. Reporting entity

GSD Yatırım Bankası Anonim Şirketi (the "Bank'') was registered on 22 December 1998 at Turkish Trade Registry Gazette, in accordance with the decision number 98/10962 taken by the Board of Ministers on 20 April 1998. The Bank was registered as an investment bank and commenced its operations on 7 April 1999, after obtaining the necessary banking permissions from the Turkish Undersecretariat of Treasury (the "Treasury") and the Central Bank of Turkey (the "Central Bank") on 24 February 1999.

The registered office address of the Bank is Aydınevler Mah. Kaptan Rıfat Sk. No: 3 Küçükyalı 34854, Maltepe - Istanbul, Turkey.

The parent and ultimate parent of the Bank is GSD Holding AŞ ("GSD Holding") whose majority shares are publicly traded.

Nature of activities of the Bank

The Bank carries out its activities as an investment bank. The Bank's corporate services mainly include corporate lending and trade finance. In retail banking, the Bank mainly provides retail lending products such as mortgages, home equity, vehicle and consumer loans to its customers. As a non-deposit taking bank, the Bank borrows funds from financial markets.

Operational activities of the Bank as stated at its Articles of Association are as follows:

- Lending cash and non cash loans
- Providing collection and payment services, fund transfer and correspondent banking services
- Cheques and notes payable transactions
- Providing custody service
- Foreign exchange transactions
- Trading of capital market instruments, derivatives and money market instruments
- Intermediary services in money markets
- Financial lease transactions

As at 31 December 2011, the Bank provides services through its head office. As at 31 December 2011, the number of employees of the Bank is 26 (2010: 28).

2. Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"s) as issued by the International Accounting Standards Board ("IASB").

The financial statements of the Bank were authorised for issue by the management on 9 April 2012. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

The Bank maintains its books of account and prepares its statutory financial statements in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law and accounting standards promulgated by the other relevant laws and regulations.

The financial statements have been prepared from statutory financial statements of the Bank and its subsidiary 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 accounting policies have been consistently applied by the Bank and are consistent with those used in previous year ended 31 December 2010.

Reclassifications in the prior year financial statements

The Bank has made certain reclassifications to the financial statements as at 31 December 2010 to be consistent with the current year presentation. Major reclassification in the financial statements as at 31 December 2010 is as follows:

TL 1,600 representing the inflation adjustments to share capital arising from the restatement effect of the inflation adjustment due to inflation accounting for the year 2005 in the financial statements in accordance with IFRS, which continued to be restated for the effects of inflation until 31 December 2005 have been reclassified to retained earnings in the statement of changes in equity as at 1 January 2010 and in the statement of financial position as at 31 December 2010.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value

2.3 Functional and presentation currency

These financial statements are presented in TL, which is the Bank's functional currency. Except as otherwise indicated, financial information presented in TL has been rounded to the nearest thousand.

The restatement for the changes in the general purchasing power of TL until 31 December 2005 is based on IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and the corresponding figures for previous year be restated in the same terms.

IAS 29 describes characteristics that may indicate that an economy is hyperinflationary. However, it concludes that it is a matter of judgement when restatement of financial statements becomes necessary. After experiencing hyperinflation in Turkey for many years, as a result of the new economic program, which was launched in late 2001, the three-year cumulative inflation rate dropped below 100% in October 2004. Based on these considerations, restatement pursuant to IAS 29 has been applied until 31 December 2005 and Turkey ceased to be hyperinflationary effective from 1 January 2006.

2. Basis of preparation *(continued)*

2.3 Functional and presentation currency *(continued)*

Restatement of statement of financial position and statement of comprehensive income items through the use of a general price index and relevant conversion factors does not necessarily mean that the Bank could realise or settle the same values of assets and liabilities as indicated in the statement of financial position. Similarly, it does not necessarily mean that the Bank could return or settle the same values of equity to its shareholders.

2.4 Use of estimates and judgements

The preparation of the financial statements in conformity with IFRSs 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.

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 notes 4 and 5.

3. Significant accounting policies

The accounting policies set out below have been applied constantly to all periods presented in these financial statements and have been applied consistently by the Bank.

3.1 Consolidation

As at 31 December 2010, the Bank owned 100% shares of GSD International Limited ("GSD International"). The Bank has decided to liquidate its subsidiary on 27 July 2011 and liquidation procedures have been completed on 24 November 2011. GSD International applied for dissolution to the Registry of Isle of Man on 26 August 2011 and distributed its surplus assets to its only shareholder, the Bank, on 11 November 2011. The financial statements of subsidiary were included in the consolidated financial statements until November 2011. The financial statements of the subsidiary was prepared for the same reporting period as the Bank, using uniform accounting policies for like transactions and other events in similar circumstances.

Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, were eliminated in preparing the consolidated financial statements. Unrealised losses were eliminated in the same way as unrealised gains, but only to the extent that there was no evidence of impairment.

3.2 Foreign currency transactions

The financial statements are presented in TL, which is the Bank's functional and presentation currency. The Bank determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are translated into the respective functional currency of the operation at the spot exchange rate date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate date of the transaction.

(Currency - Thousands of Turkish Lira (TL))

3. Significant accounting policies *(continued)*

3.2 Foreign currency transactions *(continued)*

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the period. All foreign currency differences are recognised in profit or loss.

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

	EUR / TL (full)	USD / TL (full)
31 December 2009	2.1603	1.5057
31 December 2010	2.0491	1.5460
31 December 2011	1.8889	2.4438

3.3 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.

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 and expense on financial assets and liabilities at amortised cost on an effective interest rate basis
- the interest income on trading assets.

3.4 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.

3.5 Net trading income

Net trading income comprises all realised and unrealised fair value changes in derivative financial instruments.

3.6 Dividends

Dividend income is recognised when the right to receive the payments is established.

3.7 Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

3. Significant accounting policies *(continued)*

3.8 Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and deferred tax liabilities are offset if there is a legally enforceable right tot offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same authority on the same taxable entity.

A deferred tax asset is recognised for unused tax loss, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.9 Financial assets and liabilities

Recognition

The Bank initially recognises cash and balances with the Central Bank, due from banks, loans and advances to customers, current account of loan customers and funds borrowed on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

Classification

See accounting policies 3.10, 3.11, 3.12, 3.13, 3.14, 3.20.

Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

3. Significant accounting policies *(continued)*

3.9 Financial assets and liabilities *(continued)*

Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the recognised amounts and it intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair value measurement

Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument in not active, the Bank establishes fair value using a valuation technique. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models.

Identification and measurement of impairment

At each reporting date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is (are) impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows on the asset(s) that can be estimated reliably.

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristic.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;
- the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or

3. Significant accounting policies *(continued)*

3.9 Financial assets and liabilities *(continued)*

- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank, including:
  - adverse changes in the payment status of borrowers; or
  - national or local economic conditions that correlate with defaults on the assets in the Bank.

If there is objective evidence that an impairment loss on loans and advances carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and estimated recoverable amount. The carrying amount of the asset is reduced through use of an allowance account. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances.

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 recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of impairment loss is recognised in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. The amount of the reversal should not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

A write off is made when all or part of a loan is deemed uncollectible or in the case of debt forgiveness. Such loans are written off after all the necessary legal and regulatory procedures have been completed and the amount of the loss has been determined. Write offs are charged against previously established allowances and reduce the principal amount of a loan. Subsequent recoveries of amounts written off are included in the income statement.

3.10 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

3. Significant accounting policies *(continued)*

3.11 Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

3.12 Derivative financial instruments

The Bank enters into derivative instrument transactions including forwards, swaps and options in the foreign exchange and capital markets. Most of these derivative transactions are considered as effective economic hedges under the Bank's risk management policies; however since they do not qualify for hedge accounting under the specific provisions of IAS 39, they are treated as derivatives held for trading.

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 on 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.

3.13 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)*

3.14 Tangible assets

Recognition and measurement

The costs of the tangible assets are restated for the effects of inflation to the end of 31 December 2005, less accumulated depreciation and impairment losses. Tangible assets acquired after 31 December 2005 is reflected at cost, less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

The gain or loss on disposal of an item of tangible assets is determined by comparing the proceeds from disposal with the carrying amount of the item of tangible assets, and are recognised net within other operating income in profit or loss.

Subsequent costs

The cost of replacing part of an item of tangible assets is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of tangible assets are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of tangible assets since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives.

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

Motor vehicles	5 years
Furniture and fixtures	5 – 50 years
Leased assets	shorter of 5 – 10 years and the lease term

Leasehold improvements are depreciated on a straight-line method over a period of time of their lease contract.

Depreciation methods and useful lives are reassessed at each financial year-end and adjusted if appropriate.

3. Significant accounting policies *(continued)*

3.15 Intangible assets

The costs of the intangible assets are restated for the effects of inflation to the end of 31 December 2005, less accumulated amortisation and impairment losses. Intangible assets acquired after 31 December 2005 are reflected at cost, less accumulated amortisation and impairment losses.

Intangible assets comprise purchased software.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimate useful lives of software are four to fifteen years.

Amortisation methods and useful lives are reassessed at each financial year-end and adjusted if appropriate.

3.16 Assets held for sale

Assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell.

3.17 Leases

The Bank as lessee

Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and, the leased assets are not recognised in the Bank's statement of financial position.

The Bank as lessor

Finance leases

The Bank presents leased assets as a receivable equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

3.18 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed on each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3. Significant accounting policies *(continued)*

3.18 Impairment of non-financial assets *(continued)*

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.20 Deposits, current accounts of loan customers and funds borrowed

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.

3.19 Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

3.20 Employee benefits

(i) Reserve for employee severance payments

In accordance with the existing social legislation in Turkey, the Bank is required to make certain lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of an agreed formula, are subject to certain upper limits and are recognised in the accompanying financial statements as accrued. The reserve has been calculated by estimating the present value of the future obligation of the Bank that may arise from the retirement of the employees.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.21 Fiduciary assets

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

3. Significant accounting policies *(continued)*

3.22 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2011, and have not been applied in preparing these financial statements. None of these will have an effect on the financial information of the Bank, with the exception of:

IFRS 9 Financial Instruments, published on 12 November 2009 as part of phase I of the IASB's comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payment of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held to maturity, available for sale and loans and receivables. For an investment in an equity instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to profit or loss at a later date. However, dividends on such investments are recognised in profit or loss, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in profit or loss.

The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value.

The standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

The Bank is currently in the process of evaluating the potential effect of this standard. Given the nature of Bank's operations, this standard is expected to have a pervasive impact on the Bank's financial statements.

Amendments to IAS 1 – "Presentation of Items of Other Comprehensive Income" are effective for annual periods beginning on or after 1 July 2012. The amendments to IAS 1 require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments change the title of the statement of comprehensive income to the statement of profit or loss and other comprehensive income. However, an entity is still allowed to use other titles. The amendments do not change the existing option to present profit or loss and other comprehensive income in two statements; and do not address which items are presented in other comprehensive income or which items need to be reclassified. The requirements of other IFRSs continue to apply in this regard.

IFRS 13 – "Fair Value Measurement" replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other IFRSs. It does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards. The standard is effective for annual periods beginning on or after 1 January 2013.

4. Financial risk management

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 on basis, 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. 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 regular 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 - Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

b) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks.

The most important step in managing this risk is the initial decision whether or not to extend credit.

The Bank manages its corporate portfolio as per following principles;

There are risk limits, set by the Board of Directors, describing relevant credit limits such as single borrower limit, group exposure limit, credit approval authorities and their approval limits.

The Bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains securities when appropriate.

Management of credit risk

Throughout the loan extension process, the Bank management evaluates the firm's operating performance, financial structure, ability of debt repayment currently and continuance of debt payment ability in the future and the morality of the firm's shareholders. The Bank has generated an internal rating system for the determination of firms' ratings and credit assessments. The "Credit Rating" process is the analysis of objective criteria formed upon the evaluation of firm's financial performance, information gathered throughout intelligence process, relations of the firm with other financial institutions, the firm's production technology, the position of the firm in its sector, the firm's competitiveness and customer and supplier portfolio of the firm. The firms are rated between A - H.

Interval	Rating	Description
90 - 100	A	Excellent
80 - 89	B	Very good
70 - 79	C	Good
60 - 69	D	Average
50 - 59	E	Fair
40 - 49	F	Closely follow up
25 - 39	G	Doubtful
0 - 24	H	Uncollectible

Risk follow-up department performs the monitoring of the morality records of the firm and the black list of central bank, controls the distribution of concentration limits with respect to sector, geography and credit type and controls the collateral structure of the loans.

(Currency - Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

b) Credit risk *(continued)*

Exposure to credit risk

		Due from banks		**Loans and advances to customers**	
At 31 December	*Notes*	**2011**	**2010**	**2011**	**2010**
Carrying amount		**128**	**122**	**141,541**	**89,751**
Individually impaired					
- Non-performing financial assets		-	-	10,338	11,979
Gross amount		**-**	**-**	**10,338**	**11,979**
Allowance for impairment	*16*	-	-	(9,500)	(9,603)
Carrying amount		**-**	**-**	**838**	**2,376**
Past due but not impaired		-	-	-	-
Carrying amount		**-**	**-**	**-**	**-**
Neither past due nor impaired		128	122	141,967	88,135
Gross amount		**128**	**122**	**141,967**	**88,135**
Allowance for collective impairment	*16*		-	(1,264)	(760)
Carrying amount		**128**	**122**	**140,703**	**87,375**
Carrying amount (amortised cost)	*13, 16*	**128**	**122**	**141,541**	**89,751**

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. These loans are graded F to H in the Bank's internal credit risk grading system.

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.

(Currency - Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

b) Credit risk *(continued)*

Exposure to credit risk (continued)

Allowances for impairment

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. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of assets in respect of losses that have been incurred but not have not been identified on loans that are considered individually insignificant as well as individually significant exposures that were subject to individual assessment for impairment but not found to be individually impaired.

Write-off policy

The Bank writes off a loan balance and any related allowances for impairment losses, when Bank determines that the loans are uncollectible. This determination is made after considering information such as the occurrence of significant changes in borrower's financial 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.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade.

	Loans and advances to customers	
2011	**Gross**	**Net**
Grade F : Individually impaired	-	-
Grade G : Individually impaired	405	153
Grade H : Individually impaired	9,933	685
Total	**10,338**	**838**

	Loans and advances to customers	
2010	**Gross**	**Net**
Grade F : Individually impaired	-	-
Grade G : Individually impaired	-	-
Grade H : Individually impaired	11,979	2,376
Total	**11,979**	**2,376**

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 - Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

b) Credit risk *(continued)*

Collateral policy (continued)

The breakdown of performing and under close follow-up cash and non-cash loans by type of collateral is as follows:

	2011	2010
Secured loans	**151,429**	**113,488**
- Secured by cash collateral	6	4
- Secured by mortgages	6,832	6,824
- Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	144,591	106,660
Unsecured loans	**104,263**	**69,697**
Total performing loans	**255,692**	**183,185**

Segment concentration

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

	Due from banks		Loans and advances to customers	
	2011	**2010**	**2011**	**2010**
Banks	128	122	-	-
Finance	-	-	95,210	40,286
Transportation	-	-	898	9,703
Production	-	-	9,088	17,024
Retail	-	-	9,934	8,747
Construction	-	-	12,782	3,143
Real estate property	-	-	-	260
Mining	-	-	2,632	984
Other	-	-	11,376	7,846
Corporate loans	**128**	**122**	**141,920**	**87,993**
Consumer loans	-	-	47	142
Non-performing loans	-	-	10,338	11,979
Provision for possible loan losses	-	-	(10,764)	(10,363)
Total	**128**	**122**	**141,541**	**89,751**

(Currency - Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

b) Credit risk *(continued)*

Segment concentration of non-cash loans is as follows:

	2011	**2010**
Finance	35,025	22,580
Production	17,560	17,265
Retail	7,565	3,454
Transportation	2,340	1,277
Electrical, gas and natural resources	2,135	2,135
Construction	1,437	1,022
Mining	-	21,926
Other	47,663	25,391
Total	**113,725**	**95,050**

Concentration risk by location

		Due from banks		**Loans and advances to customers**	
	Notes	**2011**	**2010**	**2011**	**2010**
Turkey		128	122	141,967	89,751
	13, 16	**128**	**122**	**141,967**	**89,751**

Trading assets including derivative financial instruments

At 31 December 2011, the Bank held trading assets amounting to TL 457 (2010: TL 3,423 - including derivative financial assets). An analysis of the credit quality of the maximum credit exposure is as follows:

	Notes	**2011**	**2010**
Government bonds and treasury bills			
- Rated BB - (trading portfolio)	*14*	457	3,422
Derivative assets:			
- Bank and financial institution counterparties	*15*	-	1
Fair value and carrying amount		**457**	**3,423**

(Currency - Thousands of Turkish Lira (TL))

4. Financial risk management *(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"). Currently, this calculation is performed on a bank only basis. In November 2006, BRSA issued a new communiqué on the measurement of liquidity adequacy of the banks. This new legislation requires the banks to meet 80% liquidity ratio of foreign currency assets/liabilities and 100% liquidity ratio of total assets/liabilities based on arithmetic average computations on a weekly and monthly basis effective from 1 June 2007. The Bank's liquidity ratios in 2011 and 2010 are as follows:

	First maturity bracket (weekly)		Second maturity bracket (monthly)	
	Foreign currency	Total	Foreign currency	Total
2011 average	92.27	254.31	84.98	225.20
2010 average	385.57	248.68	112.53	239.08

Maturity analysis for financial liabilities

The table on the next page analyses financial liabilities of the Bank into relevant maturity groupings based on the remaining period at statement of financial position date to contractual maturity date.

(Currency - Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

c) Liquidity risk *(continued)*

Maturity analysis for financial liabilities (continued)

2011	Note	Carrying Amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Non-derivative liabilities									
Current accounts of loan customers	*21*	51,633	(51,858)	(709)	(49,031)	(2,118)	-	-	-
Other money market deposits	*22*	-	-	-	-	-	-	-	-
Funds borrowed	*23*	16,552	(16,588)	-	(14,392)	(2,196)	-	-	-
		68,185	**(68,446)**	**(709)**	**(63,423)**	**(4,314)**	-	-	-
Derivative financial instruments									
- Outflow	*15*	13	1,344	-	1,344	-	-	-	-
- Inflow	*15*	-	(1,368)	-	(1,368)	-	-	-	-
		13	**(24)**	-	**(24)**	-	-	-	-
		68,198	**(68,470)**	**(709)**	**(63,447)**	**(4,314)**			

2010	Note	Carrying Amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Non-derivative liabilities									
Current accounts of loan customers	*21*	7,807	(7,854)	(284)	(2,631)	(4,939)	-	-	-
Other money market deposits	*22*	2,400	(2,400)	-	(2,400)	-	-	-	-
Funds borrowed	*23*	12,891	(12,902)	-	(11,941)	-	(961)	-	-
		23,098	**(23,156)**	**(284)**	**(16,972)**	**(4,939)**	**(961)**	-	-
Derivative financial instruments									
- Outflow	*15*	28	(1,106)	-	(184)	-	(922)	-	-
- Inflow	*15*	(1)	1,099	-	184	-	915	-	-
		27	**(7)**	-	-	-	**(7)**	-	-
		23,125	**(23,163)**	**(284)**	**(16,972)**	**(4,939)**	**(968)**	-	-

(Currency - Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

d) Market risk

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

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

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

	2011			2010		
	Average	**Highest**	**Lowest**	**Average**	**Highest**	**Lowest**
Interest rate risk	11	33	3	32	44	21
Equity price risk	-	-	-	1,274	1,590	-
Currency risk	82	254	-	-	-	-
Total value-at-risk	**93**	**287**	**3**	**1,306**	**1,634**	**21**

(Currency - Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

d) Market risk *(continued)*

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. The The Bank does not prefer to carry foreign currency risk and holds foreign currency asset and liability items together with derivatives in balance against the foreign currency risk.

The Bank manages foreign currency risk by weekly Asset and Liability Committee meetings, comprising members of senior management of the Bank and through limits on the positions which can be taken by the Bank's treasury and securities trading divisions.

The concentrations of assets, liabilities and off statement of financial position items are as follows:

2011	**Euro**	**USD**	**Yen**	**Other**	**Total**
Cash and balances with the Central Bank	-	2,052	-	-	2,052
Due from banks	41	13	3	45	102
Loans and advances to customers	-	3,589	-	-	3,589
Current accounts of loan customers	-	-	-	-	-
Funds borrowed	(1,320)	(5,075)	-	-	(6,395)
Other liabilities	(130)	(421)	-	-	(551)
Net balance sheet position	**(1,409)**	**158**	**3**	**45**	**(1,203)**
Net off-balance sheet position					
- Derivative financial assets	1,344	-	-	-	1,344
- Derivative financial liabilities	-	-	-	-	-
Net position	**(65)**	**158**	**3**	**45**	**141**

2010	**Euro**	**USD**	**Yen**	**Other**	**Total**
Cash and balances with the Central Bank	-	1,015	-	-	1,015
Due from banks	21	55	2	32	110
Loans and advances to customers	2,224	1,548	-	-	3,772
Current accounts of loan customers	(6)	(371)	-	-	(377)
Funds borrowed	(1,537)	(2,256)	-	-	(3,793)
Other liabilities	-	(14)	-	-	(14)
Net balance sheet position	**702**	**(23)**	**2**	**32**	**713**
Net off-balance sheet position	**(738)**	-	-	-	**(738)**
- Derivative financial assets	184	-	-	-	184
- Derivative financial liabilities	(922)	-	-	-	(922)
Net position	**(36)**	**(23)**	**2**	**32**	**(25)**

(Currency - Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

d) Market risk *(continued)*

Currency risk (continued)

Sensitivity analysis

A 10 percent weakening of TL against the foreign currencies at 31 December 2011 and 2010 would have decreased 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 2010.

	2011		2010	
	Equity(*)	**Profit or loss**	**Equity(*)**	**Profit or loss**
Euro	(7)	(7)	(4)	(4)
USD	16	16	(2)	(2)
Other currencies	5	5	3	3
Total	**14**	**14**	**(3)**	**(3)**

(*) Equity effect also includes profit or loss effect of 10% devaluation of TL against related currencies.

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

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments and cash flows. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through risk management strategies.

A substantial majority of the Bank's assets and liabilities reprice within three months. Accordingly, there is a limited exposure to interest rate risk.

(Currency - Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

d) Market risk *(continued)*

Interest rate risk (continued)

Exposure to interest rate risk

The principal risk to which portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management Department of the Bank in its day-to-day monitoring activities. A summary of the Bank's interest rate gap position on portfolios is as follows:

2011	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	5 years and over	Non interest	Total
Assets							
Cash and balances with the Central Bank	-	-	-	-	-	2,099	2,099
Due from banks	-	-	-	-	-	128	128
Trading assets	-	-	457	-	-	-	457
Loans and advances to customers	120,626	17,200	2,766	111	-	838(*)	141,541
Total assets	**120,626**	**17,200**	**3,223**	**111**	-	**3,065**	**144,225**
Liabilities							
Current accounts of loan customers	48,837	2,087	-	-	-	709	51,633
Other money market deposits	-	-	-	-	-	-	-
Funds borrowed	14,379	2,173	-	-	-	-	16,552
Total liabilities	**63,216**	**4,260**	-	-	-	**709**	**68,185**
Balance sheet interest sensitivity gap	**57,410**	**12,940**	**3,223**	**111**	-	**2,356**	**76,040**

(*) Includes non-performing loans amounting TL 10,338 and allowance for loan losses amounting TL 9,500 TL.

2010	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	5 years and over	Non interest bearing	Total
Assets							
Cash and balances with the Central Bank	-	-	-	-	-	1,063	1,063
Due from banks	-	-	-	-	-	122	122
Trading assets	-	-	3,422	-	-	-	3,422
Loans and advances to customers	74,128	10,379	2,489	1,139	-	1,616(*)	89,751
Total assets	**74,128**	**10,379**	**5,911**	**1,139**	-	**2,801**	**94,358**
Liabilities							
Current accounts of loan customers	3,508	4,040	-	-	-	259	7,807
Other money market deposits	2,400	-	-	-	-	-	2,400
Funds borrowed	11,934	-	957	-	-	-	12,891
Total liabilities	**17,842**	**4,040**	**957**	-	-	**259**	**23,098**
Balance sheet interest sensitivity gap	**56,286**	**6,339**	**4,954**	**1,139**	-	**2,542**	**71,260**

(*) Includes net of non-performing loans amounting TL 11,979 and allowance for loan losses amounting TL 10,363.

(Currency - Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

d) Market risk *(continued)*

Interest rate risk (continued)

Sensitivity analysis

The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on the net interest income for the year based on the floating rate financial assets and financial liabilities held at 31 December 2011. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. This analysis is performed on the same basis for 31 December 2010. The following tables also include the sensitivity of trading portfolio of the Bank.

	Profit or loss		**Equity**(*)	
2011	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
Financial assets at fair value through profit or loss	(3)	4	(3)	4
Floating rate financial assets	-	-	-	-
Floating rate financial liabilities	-	-	-	-
Total, net	**(3)**	**4**	**(3)**	**4**

	Profit or loss		**Equity**(*)	
2010	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
Financial assets at fair value through profit or loss	(11)	12	(11)	12
Floating rate financial assets	-	-	-	-
Floating rate financial liabilities	(2)	2	(2)	2
Total, net	**(13)**	**14**	**(13)**	**14**

(*) Equity effect also includes profit or loss effect of 100 bp increase or decrease in interest rates.

(Currency - Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

d) Market risk *(continued)*

Interest rate risk (continued)

Summary of average interest rates

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

	2011			2010		
	Euro	**USD**	**TL**	**Euro**	**USD**	**TL**
Assets						
Cash and balances with the Central Bank	-	-	-	-	-	-
Due from banks	-	-	-	-	0.03	-
Trading assets	-	-	11.18	-	-	6.49
Loans and advances to customers	-	7.90	15.89	8.59	4.70	9.77
Liabilities						
Current accounts of loan customers	-	4.50	11.31	-	3.00	8.02
Other money market deposits	-	-	-	0.54	0.89	7.25
Funds borrowed	1.00	5.66	12.75	-	-	4.89

e) Operational risk

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

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

The Bank calculated the value at operational risk in accordance with the "Computation of Value of Operational Risk" of the circular, "Regulation Regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette dated 1 November 2006, using gross profit of the last three years, 2008, 2009 and 2010 (Basic Indicator Approach). The amount calculated as TL 27,273 as at 31 December 2011 (2010: TL 30,169) represents the operational risk that the Bank may expose and the amount of minimum capital requirement to eliminate this risk.

(Currency - Thousands of Turkish Lira (TL))

4. Financial risk management *(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 is 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.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. Operational risk capital requirement is calculated using Basic Indicator Approach and included in the capital adequacy calculations.

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

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

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

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

	2011	2010
Tier 1 capital	74,645	70,502
Tier 2 capital	75,909	71,262
Deductions from capital	-	-
Total regulatory capital	**75,909**	**71,262**
Risk-weighted assets	192,081	141,114
Value at market risk	3,150	263
Operational risk	27,273	30,169
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	34.12	41.54
Total Tier 1 capital expressed as a percentage of risk-weighted assets, value at market risk and operational risk	33.55	41.10

5. 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 4).

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 3.9.

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 a 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.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances when there is objective to suggest that they contain impaired loans and advances, but the individual impaired items cannot yet be identified.

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 3.9. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires 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:

Valuation of financial instruments

The Bank's accounting policy on fair value measurements is discussed in accounting policy 3.9.

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.

(Currency - Thousands of Turkish Lira (TL))

5. Use of estimates and judgements *(continued)*

Critical accounting judgements in applying the Bank's accounting policies *(continued)*

Valuation of financial instruments (continued)

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

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

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

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

2011	*Note*	Level 1	Level 2	Level 3	Total
Assets					
Trading assets	*14*	457	-	-	457
Derivative financial instruments	*15*	-	-	-	-
		457	**-**	**-**	**457**
Liabilities					
Derivative financial instruments	*15*	-	13	-	13
		-	**13**	**-**	**13**

2010	*Note*	Level 1	Level 2	Level 3	Total
Assets					
Trading assets	*14*	3,422	-	-	3,422
Derivative financial instruments	*15*	-	1	-	1
		3,422	**1**	**-**	**3,423**
Liabilities					
Derivative financial instruments	*15*	-	28	-	28
		-	**28**	**-**	**28**

(Currency - Thousands of Turkish Lira (TL))

5. Use of estimates and judgements *(continued)*

Critical accounting judgements in applying the Bank's accounting policies *(continued)*

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 trading assets and liabilities set out in accounting policy 3.11.

Details of the Bank's classification of financial assets and liabilities are given in note 6.

6. Financial assets and liabilities

Accounting classification and 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 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	Other amortised cost	Total carrying amount	Fair value
2011						
Cash and balances with Central Bank	*12*	-	2,099	-	2,099	2,099
Due from banks	*13*	-	128	-	128	128
Trading assets	*14*	457	-	-	457	457
Derivative financial instruments	*15*	-	-	-	-	-
Loans and advances to customers	*16*		141,541	-	141,541	141,541
		457	**143,768**	**-**	**143,768**	**144,225**
Derivative financial instruments	*15*	13	-	-	13	13
Current accounts of loan customers	*22*	-	-	51,633	51,633	51,633
Other money market deposits	*23*	-	-	-	-	-
Funds borrowed	*24*	-	-	16,552	16,552	16,552
		13	**-**	**68,185**	**68,198**	**68,198**

	Notes	Trading	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
2010						
Cash and balances with Central Bank	*12*	-	1,063	-	1,063	1,063
Due from banks	*13*	-	122	-	122	122
Trading assets	*14*	3,422	-	-	3,422	3,422
Derivative financial instruments	*15*	1	-	-	1	1
Loans and advances to customers	*16*	-	89,751	-	89,751	89,751
		3,423	**90,936**	**-**	**94,359**	**94,359**
Derivative financial instruments	*15*	28	-	-	28	28
Current accounts of loan customers	*21*	-	-	7,807	7,807	7,807
Other money market deposits	*22*	-	-	2,400	2,400	2,400
Funds borrowed	*23*	-	-	12,891	12,891	12,891
		28	**-**	**23,098**	**23,126**	**23,126**

(Currency - Thousands of Turkish Lira (TL))

7. Net fee and commission income

	2011	2010
Fee and commission income		
Fee and commission income on non-cash loans	939	909
Fee on banking services	92	59
Other	30	21
Total fee and commission income	**1,061**	**989**
Fee and commission expense		
Fee and commission expense on banks	51	63
Other	20	21
Total fee and commission expense	**71**	**84**
Net fee and commission income	**990**	**905**

8. Net trading gain/(loss)

	2011	2010
Derivative financial instruments	774	(122)
	774	(122)

9. Personnel expenses

	2011	2010
Wages and salaries	2,709	2,725
Social security premiums	206	232
Provision for employee termination benefits	104	31
Provision for vacation pay liability	11	17
Other fringe benefits	275	215
	3,305	**3,220**

(Currency - Thousands of Turkish Lira (TL))

10. Other operating expenses

	2011	2010
Utilities expense	684	616
Rent expenses	504	498
On line data expenses	264	240
Vehicle expenses	225	205
Auditing and consulting expenses	188	158
Subscription and membership fees	80	71
Other	435	275
	2,380	**2,063**

11. Income tax

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

As at 31 December 2011, corporate income tax is 20% (2010: 20%) on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes. There is also a withholding tax levied at a certain rate on the dividends paid and is accrued only at the time of such payments. Some of the deduction rates included in the 15th and 30th articles of the Law no. 5520 on the Corporate Tax, has been redefined according to the cabinet decision numbered 2006/10731, which has been announced at Trade Registry Gazette of 23 July 2006-26237. In this context, withholding tax rate on dividend payments which are made to the companies except those are settled in Turkey or generate income in Turkey via a business or a regular agent has been increased to 15% from 10%.

Under the Turkish taxation system, tax losses can be carried forward to be offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous years.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within four months following the close of the accounting year to which they relate. Tax returns are open for five years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

In Turkey, the transfer pricing provisions have been stated under the Article 13 of Corporate Tax Law with the heading of "disguised profit distribution via transfer pricing". The General Communiqué on disguised profit distribution via Transfer Pricing, dated 18 November 2007 sets details about implementation.

If a taxpayer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with arm's length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible for corporate income tax purposes.

As at 31 December 2011 and 2010, prepaid income taxes are netted off with the current tax liability as stated below:

	2011	2010
Income tax liability	1,054	694
Prepaid income tax	(403)	(527)
Income taxes payable	**651**	**167**

(Currency - Thousands of Turkish Lira (TL))

11. Income tax *(continued)*

Income tax recognised in the income statement

The components of income tax expense for the years ended 31 December 2011 and 2010 are:

	2011	2010
Current tax expense		
Current year	1,054	694
Deferred tax (income) / expense		
Origination and reversal of temporary differences	(124)	(16)
Total income tax expense	**930**	**678**

Reconciliation of effective tax rate

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

	2011	%	2010	%
Profit before income tax	5,122		5,356	
Taxes on income per statutory tax rate	1,024	20	1,071	20
Tax effect of foreign subsidiary	(67)	(1)	(80)	(1)
Tax effect of exempt items	(44)	(1)	(332)	(6)
Tax effect of disallowable expenses	17	-	19	-
Total income tax expense	**930**	**18**	**678**	**13**

12. Cash and balances with Central Bank

	2011	2010
Cash on hand	-	8
Cash and balances with Central Bank of Turkish Republic	71	328
Reserve deposits at Central Bank of Turkish Republic	2,028	727
	2,099	**1,063**

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

The banks operating in Turkey keep reserve deposits for Turkish currency and foreign currency liabilities in TL and USD or Euro at the rates of between 5-11% and between 6-11%, respectively, as per the Communiqué no. 2005/1 "Reserve Deposits" of the Central Bank of Turkey (2010: 6% for TL and 11% for USD or Euro).

13. Due from banks

	2011	2010
Placements with other banks	128	122
- Demand	*128*	*122*
- Time	-	-
	128	**122**

(Currency - Thousands of Turkish Lira (TL))

14. Trading assets

	2011		2010	
	Face value	Carrying value	Face value	Carrying value
Debt and other instruments				
Government bonds in TL	500	457	3,500	3,422
	500	**457**	**3,500**	**3,422**

As at 31 December 2011, government bonds with carrying values of TL 457 (2010: TL 3,422) are pledged to the Central Bank and the Istanbul Menkul Kıymetler Borsası Takas ve Saklama Bankası Anonim Şirketi (Istanbul Stock Exchange Clearing and Custody Incorporation) for regulatory requirements and as a guarantee for stock exchange and money market operations.

As at 31 December 2011 and 2010, there is not any debt instrument given as collateral under repurchase agreements.

15. Derivative financial instruments

In the ordinary course of business, the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrumets, reference rates or indices. Derivative financial instruments include forwards.

	2011	2010
Derivative financial assets		
Forwards	-	1
Derivative financial liabilities		
Forwards	13	28

The table below shows the notional amounts of derivative instruments analyzed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

	2011					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
Currency forwards:						
Purchases	1,344	-	-	-	-	1,344
Sales	1,368	-	-	-	-	1,368
Total of transactions	**2,712**	-	-	-	-	**2,712**

	2010					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
Currency forwards:						
Purchases	184		915	-	-	1,099
Sales	184	-	922	-	-	1,106
Total of transactions	**368**	-	**1,837**	-	-	**2,205**

(Currency - Thousands of Turkish Lira (TL))

16. Loans and advances to customers

	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
		2011			2010	
- Consumer loans	47	-	47	142	-	142
- Corporate loans	152,258	(10,764)	141,494	99,972	(10,363)	89,609
	152,305	**(10,764)**	**141,541**	**100,114**	**(10,363)**	**89,751**

Allowance for impairment

	2011	2010
Specific allowances for impairment		
Balance at 1 January	9,603	9,028
Impairment loss for the year		
- Charge for the year	514	668
- Recoveries	(617)	(93)
Balance at 31 December	**9,500**	**9,603**
Collective allowances for impairment		
Balance at 1 January	760	757
Impairment loss for the year		
- Charge for the year	504	3
Balance at 31 December	**1,264**	**760**
Total allowances for impairment	**10,764**	**10,363**

(Currency - Thousands of Turkish Lira (TL))

17. Tangible assets

	Motor vehicles	Furniture and fixtures	Leased assets	Leasehold improvements	Total
Cost					
Balance at 1 January 2010	65	423	273	503	1,264
Acquisitions	-	168	-	-	168
Disposals	-	(168)	-	-	(168)
Balance at 31 December 2010	**65**	**423**	**273**	**503**	**1,264**
Balance at 1 January 2011	65	423	273	503	1,264
Acquisitions	-	9	-	-	9
Disposals	(65)	(72)	(10)	(503)	(650)
Balance at 31 December 2011	**-**	**360**	**263**	**-**	**623**
Depreciation					
Balance at 1 January 2010	65	239	271	488	1,063
Depreciation for the year	-	58	-	5	63
Disposals	-	-	-	-	-
Balance at 31 December 2010	**65**	**297**	**271**	**493**	**1,126**
Balance at 1 January 2011	65	297	271	493	1,126
Depreciation for the year	-	52	-	10	62
Disposals	(65)	(72)	(10)	(503)	(650)
Balance at 31 December 2011	**-**	**277**	**261**	**-**	**538**
Carrying amounts					
Balance at 1 January 2010	-	184	2	15	201
Balance at 31 December 2010	-	126	2	10	138
Balance at 31 December 2011	-	83	2	-	85

There were no capitalised borrowing costs related to the acquisition of tangible assets during the year (2010: nil).

(Currency - Thousands of Turkish Lira (TL))

18. Intangible assets

	Software
Cost	
Balance at 1 January 2010	876
Acquisitions	1
Disposals	-
Balance at 31 December 2010	**877**
Balance at 1 January 2011	877
Acquisitions	16
Disposals	-
Balance at 31 December 2011	**893**
Amortisation	
Balance at 1 January 2010	830
Amortisation for the year	5
Disposals	-
Balance at 31 December 2010	**835**
Balance at 1 January 2011	835
Amortisation for the year	5
Disposals	
Balance at 31 December 2011	**840**
Carrying amounts	
Balance at 1 January 2010	46
Balance at 31 December 2010	42
Balance at 31 December 2011	53

(Currency - Thousands of Turkish Lira (TL))

19. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2011			2010		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Allowances on loans and advances to customers	254	-	254	152	-	152
Vacation pay liability	46	-	46	26	-	26
Reserve for employee severance indemnity	41	-	41	39	-	39
Derivative financial instruments	3	-	3	6	-	6
Depreciation methodology differences on tangible assets and intangible assets	-	(5)	(5)	-	(8)	(8)
	344	**(5)**	**339**	**223**	**(8)**	**215**

Movements in temporary differences during the year

	Balance at 1 January	Recognised in profit or loss	Balance at 31 December
2011			
Allowances on loans and advances to customers	152	102	254
Vacation pay liability	26	20	46
Reserve for employee severance indemnity	39	2	41
Derivative financial instruments	6	(3)	3
Depreciation methodology differences on tangible assets and intangible assets	(8)	3	(5)
	215	**124**	**339**
2010			
Allowances on loans and advances to customers	151	1	152
Vacation pay liability	20	6	26
Reserve for employee severance indemnity	35	4	39
Derivative financial instruments	3	3	6
Depreciation methodology differences on tangible assets and intangible assets	(10)	2	(8)
	199	**16**	**215**

20. Other assets

	2011	2010
Transitory accounts	3,436	1,839
Prepaid expenses	83	48
Others	73	16
Total	**3,592**	**1,903**

(Currency - Thousands of Turkish Lira (TL))

21. Current accounts of loan customers

	2011	2010
Corporate customers	51,633	7,807
- Demand	*709*	*259*
- Time	*50,924*	*7,548*
	51,633	**7,807**

22. Other money market deposits

	2011	2010
Obligations under repurchase agreements	-	2,400
	-	**2,400**

23. Funds borrowed

	2011(*)		
		Effective interest rate	
	Amount	Turkish Lira	Foreign currency
Short-term			
Fixed interest	16,552	12.75%	USD 5.66% EUR 1.00%
Variable interest	-	-	-
Medium/long-term			
Fixed interest	-	-	-
Variable interest	-	-	-
Total	**16,552**		

(*) Based on original maturities.

	2010(*)		
		Effective interest rate	
	Amount	Turkish Lira	Foreign currency
Short-term			
Fixed interest	11,934	7.25%	USD 2.08% Euro 3.00%
Variable interest	957	-	USD 1.16%
Medium/long-term			
Fixed interest	-	-	-
Variable interest	-	-	-
Total	**12,891**		

(*) Based on original maturities.

(Currency - Thousands of Turkish Lira (TL))

24. Provisions

	2011	2010
Employee termination benefits	234	130
Vacation pay liability	205	194
Total	**439**	**324**

Vacation pay liability

In accordance with existing social legislation in Turkey, the Bank is required to make payments to employees whose employment is terminated for any reason for their vested unused vacation days. Such payments are calculated on the basis of the salary of the employee at the date of termination. Vacation pay liability is the total undiscounted liability of vested unused vacation days of the employees as at 31 December 2011 and 2010.

For the years ended 31 December, movements in the vacation pay liability are as follows:

	2011	2010
At 1 January	194	177
Increase during the year	45	43
Paid	(34)	(26)
At 31 December	**205**	**194**

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. Such payments are calculated on the basis of 30 days' pay, maximum of TL 2.732 at 31 December 2011 (2010: TL 2.517) per year of employment at the rate of pay applicable at the date of retirement or termination. The principal assumption used in the calculation of the total liability is that the maximum liability for each year of service will increase in line with inflation semi-annually.

The liability is not funded, as there is no funding requirement.

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

	2011	2010
At 1 January	130	99
Increase during the year	119	39
Paid	(15)	(8)
At 31 December	**234**	**130**

(Currency - Thousands of Turkish Lira (TL))

24. Provisions *(continued)*

International Accounting Standard No: 19 ("IAS 19") requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. The reserve has been calculated by estimating the present value of future probable obligation of the Bank arising from the retirement of the employees. Accordingly, the following statistical assumptions were used in the calculation of the following liability:

	2011	**2010**
Discount rate	5.6%	4.45%
Expected rate of salary/limit increase	5.10%	5.10%
Estimated rate of obtaining right for employee termination indemnity	91.67%	83.61%

25. Other liabilities

	2011	**2010**
Transitory accounts	3,602	1,956
Taxes and funds payable	290	155
VAT payable	3	1
Others	160	170
	4,055	**2,282**

26. Capital and reserves

	2011	**2010**
Total number of shares, TL 0.1 (in full TL), par value	500.000.000	500.000.000

As at 31 December 2011, the Bank's historical subscribed and issued share capital is TL 50,000.

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

	2011		**2010**	
	Amount	**%**	**Amount**	**%**
GSD Holding	50,000	100	50,000	100
Adjustment to share capital(*)	2,713		2,713	
	52,713		**52,713**	

(*) Adjustment to share capital represents the restatement effect of share capital until 31 December 2005.

GSD Dış Ticaret AŞ, Tekstil Factoring Hizmetleri AŞ, GSD Sigorta Aracılık Hizmetleri AŞ and GSD Denizcilik Gayrimenkul İnşaat San.ve Tic. AŞ have shares amounting less than 1 TL.

Fair value reserve

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

(Currency - Thousands of Turkish Lira (TL))

26. Capital and reserves

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.

Dividends paid and proposed

The Bank did not declare or pay dividends out of the profits for the year ended 31 December 2011 as at the date of preparation of these financial statements.

27. Cash and cash equivalents

	Notes	**2011**	**2010**
Cash on hand	*12*	-	8
Cash and balances with Central Bank of Turkish Republic	*12*	71	328
Placement with other banks	*13*	128	122
		199	**458**
Interest accruals on cash and cash equivalents		-	-
		199	**458**

The reserve deposits at Central Bank are not available to finance the Bank's day-to-day operations and therefore are not part of cash and cash equivalents.

28. Commitments and contingencies

There is no significant legal proceeding outstanding against the Bank as at 31 December 2011.

In the normal course of business activities, the Bank and its subsidiary undertake various commitments and incur certain contingent liabilities that are not presented in the financial statements including:

	2011	**2010**
Letters of guarantee	113,725	95,050
Irrevocable commitments	20	18
Revocable loan granting commitments	165,100	218,832
Total	**278,845**	**313,900**

(Currency - Thousands of Turkish Lira (TL))

29. 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. The Bank is controlled by GSD Holding, which owns 100% of ordinary shares. For the purpose of these financial statements, shareholders of the Bank, GSD Holding, its subsidiaries (Tekstil Bankası AŞ, GSD Dış Ticaret AŞ, GSD Denizcilik Gayrimenkul İnşaat San.ve Tic. AŞ, Tekstil Menkul Değerler AŞ, Tekstil Faktoring Hizmetleri AŞ, Tekstil Bilişim Hizmetleri AŞ, GSD Eğitim Vakfı, GSD Sigorta Aracılık Hizmetleri AŞ and The Euro Textile International Banking Unit Ltd.) are referred to as related parties. Related parties also include individuals that are principal owners, management and members of the Bank's Board of Directors and their families.

	2011						
	Cash loans	Non-cash Loans	Placements	Current accounts of loan customers	Funds borrowed	Other current assets	Notional amount of derivative transactions
Direct / indirect shareholders	18,042	47,648	-	48,905	-	-	2,712
Others	20	33,442	42	-	16,552	-	-

	2011				
	Interest income	Interest expense	Fees and commission income	Other operating income	Other operating expenses
Direct / indirect shareholders	1,115	1,656	228	197	684
Others	-	729	254	-	524

	2010						
	Cash Loans	Non-cash Loans	Placements	Current accounts of loan customers	Funds Borrowed	Other current assets	Notional amount of derivative transactions
Direct / indirect shareholders	5,431	25,646	-	6,579	-	-	2,205
Others	18	20,808	36	1	2,936	-	-

	2010				
	Interest income	Interest expense	Fees and commission income	Other operating income	Other operating expenses
Direct / indirect shareholders	523	238	75	2,098	617
Others	77	553	207	-	518

For the year ended 31 December 2011, the executive and non-executive members of Board of Directors and management received remuneration and fees totalling approximately TL 973 (2010: TL 997) comprising salaries and other short-term benefits.