Türkiye Vakıflar Bankası Türk Anonim Ortaklığı
and Its Subsidiaries

Consolidated Financial Statements
As at 31 December 2010
With Independent Auditors' Report Thereon

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik AŞ

6 April 2011

This report includes "Independent Auditors' Report on Consolidated Financial Statements" comprising 1 page and; "Consolidated Financial Statements Together with their Explanatory Notes" comprising 72 pages.

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Independent Auditors' Report

To the Board of Directors of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı

Introduction

We have audited the accompanying consolidated financial statements of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2010, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Istanbul, Turkey
6 April 2011

KPMG Akis Bağımsız Denetim ve SMMM AŞ

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

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Consolidated Statement of Financial Position
At 31 December 2010
(Currency – Thousands of Turkish Lira (TL))

	Notes	31 December 2010	31 December 2009
ASSETS			
Cash and cash equivalents	7	7,449,409	8,901,925
Financial assets at fair value through profit or loss	8	218,109	141,258
Loans and advances to banks	10	222,289	101,859
Loans and advances to customers	11,12	45,242,582	35,014,619
Investment securities	13	18,488,755	18,983,829
Investment in equity participations accounted for using the equity method	14	12,288	10,654
Property and equipment	15	830,298	870,915
Intangible assets	15	57,593	47,717
Deferred tax assets	21	109,391	101,938
Other assets	16	4,226,281	3,159,699
Total assets		**76,856,995**	**67,334,413**
LIABILITIES AND EQUITY			
Deposits from banks	17	1,990,343	2,156,145
Deposits from customers	18	45,975,514	42,860,322
Obligations under repurchase agreements	9	8,213,632	6,145,352
Funds borrowed	19	6,748,206	4,696,610
Other liabilities and provisions	20	4,579,227	3,363,458
Current tax liabilities	21	115,062	84,360
Deferred tax liabilities	21	3,936	3,753
Total liabilities		**67,625,920**	**59,310,000**
Share capital	22	3,300,146	3,300,146
Share premium		724,320	724,320
Fair value reserves of available-for-sale financial assets	22	408,813	388,238
Restricted funds		-	14,282
Translation reserve		47,618	46,759
Legal reserves	22	507,887	384,414
Retained earnings		3,950,127	2,862,909
Total equity attributable to equity holders of the Bank		**8,938,911**	**7,721,068**
Non-controlling interest	22	**292,164**	**303,345**
Total equity		**9,231,075**	**8,024,413**
Total liabilities and equity		**76,856,995**	**67,334,413**
Commitments and contingencies	27	**21,866,711**	**17,188,447**

The notes on pages 8 to 72 are an integral part of these consolidated financial statements.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries
Consolidated Statement of Comprehensive Income
For the Year Ended 31 December 2010
(Currency – Thousands of Turkish Lira (TL))

	Notes	31 December 2010	31 December 2009
Interest income			
Interest on loans and receivables		4,178,071	4,510,794
Interest on securities		1,593,549	1,711,946
Interest on deposits at banks		132,454	147,693
Interest on money market placements		60,005	92,515
Other interest income		35,927	52,390
Total interest income		**6,000,006**	**6,515,338**
Interest expense			
Interest on deposits		(2,619,684)	(2,906,401)
Interest on money market deposits		(387,372)	(263,835)
Interest on funds borrowed		(106,186)	(157,493)
Other interest expense		(51,262)	(28,886)
Total interest expense		**(3,164,504)**	**(3,356,615)**
Net interest income		**2,835,502**	**3,158,723**
Fee and commission income		556,745	649,102
Fee and commission expense		(109,954)	(209,299)
Net fee and commission income		**446,791**	**439,803**
Other operating income			
Net trading income	8	295,992	149,541
Net foreign exchange gains		23,931	59,936
Other income	24	715,776	654,282
Total other operating income		**1,035,699**	**863,759**
Other operating expense			
Salaries and employee benefits	25	(883,363)	(803,751)
Provision for possible loan losses, net of recoveries		(254,219)	(690,430)
Depreciation and amortisation	15	(112,310)	(116,658)
Taxes other than on income		(65,180)	(44,907)
Other expenses	26	(1,385,974)	(1,209,059)
Total other operating expenses		**(2,701,046)**	**(2,864,805)**
Profit before income tax		**1,616,946**	**1,597,480**
Income tax expense	21	(319,901)	(267,373)
Profit for the year		**1,297,045**	**1,330,107**

The notes on pages 8 to 72 are an integral part of these consolidated financial statements.

(Currency – Thousands of Turkish Lira (TL))

	Notes	31 December 2010	31 December 2009
Other comprehensive income, net of income tax			
Foreign currency translation differences for foreign operations		908	1,253
Revaluation of property, plant and equipment		(24,232)	-
Change in fair value of available for sale financial assets		146,081	449,591
Change in fair value of available for sale financial assets transferred to profit or loss	22	(121,176)	8,227
Income tax on other comprehensive income	22	19,820	(65,276)
Other comprehensive income for the year, net of income tax		**21,401**	**393,795**
Total comprehensive income for the year		**1,318,446**	**1,723,902**
Profit attributable to:			
Equity holders of the Bank		1,331,456	1,332,112
Non-controlling interest	22	(34,411)	(2,005)
Profit for the year		**1,297,045**	**1,330,107**
Total comprehensive income attributable to:			
Equity holders of the Bank		1,338,608	1,720,764
Non-controlling interest		(20,162)	3,138
Total comprehensive income for the year		**1,318,446**	**1**,723,902
Earnings per share on profit for the year (full TL)		0.5188	0.5320
Earnings per share on total comprehensive income for the year (full TL)		0.5274	0.6896

The notes on pages 8 to 72 are an integral part of these consolidated financial statements.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries
Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2010
(Currency – Thousands of Turkish Lira (TL))

		Attributable to equity holders of the Bank								
	Notes	**Share capital**	**Share premium**	**Fair value reserves**	**Revaluation surplus**	**Translation reserve**	**Legal reserves**	**Retained earnings**	**Non-controlling interest**	**Total equity**
Balances at 1 January 2009		**3,300,146**	**724,320**	**692**	**14,282**	**45,653**	**306,750**	**1,608,461**	**306,584**	**6,306,888**
Total comprehensive income for the year										
Profit for the year		-	-	-	-	-	-	1,332,112	(2,005)	**1,330,107**
Other comprehensive income										
Foreign currency translation differences		-	-	-	-	1,106	-	-	147	**1,253**
Net changes in fair value of available for sale financial assets, net of tax	22	-	-	377,674	-	-	-	-	4,906	**382,580**
Net losses on available for sale financial assets transferred to profit or loss, net of tax	22	-	-	9,872	-	-	-	-	90	**9,962**
Total other comprehensive income		**-**	**-**	**387,546**	**-**	**1,106**	**-**	**-**	**5,143**	**393,795**
Total comprehensive income for the year		**-**	**-**	**387,546**	**-**	**1,106**	**-**	**1,332,112**	**3,138**	**1,723,902**
Transactions with owners, recorded directly in equity										
Transfer to reserves		-	-	-	-	-	77,664	(77,664)	-	**-**
Dividends paid		-	-	-	-	-	-	-	(6,377)	**(6,377)**
Total contributions by and distributions to owners		**-**	**-**	**-**	**-**	**-**	**77,664**	**(77,664)**	**(6,377)**	**(6,377)**
Total transactions with owners		**-**	**-**	**-**	**-**	**-**	**77,664**	**(77,664)**	**(6,377)**	**(6,377)**
Balances at 31 December 2009		**3,300,146**	**724,320**	**388,238**	**14,282**	**46,759**	**384,414**	**2,862,909**	**303,345**	**8,024,413**

The notes on pages 8 to 72 are an integral part of these consolidated financial statements.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries
Consolidated Statement of Changes in Equity *(continued)*
For the Year Ended 31 December 2010
(Currency – Thousands of Turkish Lira (TL))

		Attributable to equity holders of the Bank								
	Notes	**Share capital**	**Share premium**	**Fair value reserves**	**Revaluation surplus**	**Translation reserve**	**Legal reserves**	**Retained earnings**	**Non-controlling interest**	**Total equity**
Balances at 1 January 2010		**3,300,146**	**724,320**	**388,238**	**14,282**	**46,759**	**384,414**	**2,862,909**	**303,345**	**8,024,413**
Total comprehensive income for the year										
Profit for the year		-	-	-	-	-	-	1,331,456	(34,411)	**1,297,045**
Other comprehensive income										
Net change in restricted funds		-	-	-	(14,282)	-	-	-	(9,950)	**(24,232)**
Foreign currency translation differences		-	-	-	-	859	-	-	49	**908**
Net changes in fair value of available for sale financial assets, net of tax	22	-	-	122,291	-	-	-	-	24,150	**146,441**
Net losses on available for sale financial assets transferred to profit or loss, net of tax	22	-	-	(101,716)	-	-	-	-	-	**(101,716)**
Total other comprehensive income		-	-	**20,575**	**(14,282)**	**859**	-	-	**14,249**	**21,401**
Total comprehensive income for the year		-	-	**20,575**	**(14,282)**	**859**	-	**1,331,456**	**(20,162)**	**1,318,446**
Transactions with owners, recorded directly in equity										
Share capital increase		-	-	-	-	-	-	-	4,702	**4,702**
Transfer to reserves		-	-	-	-	-	123,473	(123,473)	-	-
Dividends paid		-	-	-	-	-	-	(120,765)	(329)	**(121,094)**
Other		-	-	-	-	-	-	-	4,608	**4,608**
Total contributions by and distributions to owners		-	-	-	-	-	**123,473**	**(244,238)**	**8,981**	**(111,784)**
Total transactions with owners		-	-	-	-	-	**123,473**	**(244,238)**	**8,981**	**(111,784)**
Balances at 31 December 2010		**3,300,146**	**724,320**	**408,813**	-	**47,618**	**507,887**	**3,950,127**	**292,164**	**9,231,075**

The notes on pages 8 to 72 are an integral part of these consolidated financial statements.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries
Consolidated Statement of Cash Flows
For the Year Ended 31 December 2010
(Currency – Thousands of Turkish Lira (TL))

	Notes	31 December 2010	31 December 2009
Cash flows from operating activities:			
Profit for the year		1,297,045	1,330,107
Adjustments for:			
Income tax expense	21	319,901	267,373
Provision for possible loan losses		254,219	690,430
Depreciation and amortisation	15	112,310	116,658
Provision for short term employee benefits	25	78,917	79,200
Provision for retirement pay liability and unused vacations	25	31,459	40,815
Unearned premium reserve	24	2,977	29,737
Provision for outstanding claims	26	62,982	32,894
Long term insurance contracts	26	21,835	(3,989)
Other provision expenses	26	39,183	5,109
Net interest income		(2,835,502)	(3,158,723)
Income from associates accounted for using the equity method	24	(2,027)	(2,143)
Currency translation differences		908	1,253
Other non-cash adjustments		(29,572)	2,920
Changes in operating assets and liabilities:			
Loans and advances to banks		(308,983)	(32,226)
Reserve deposits		(550,355)	(60,351)
Financial assets at fair value through profit or loss		157,514	11,899
Loans and advances to customers		(10,615,408)	(4,869,014)
Other assets		(471,260)	(112,510)
Deposits from banks		(161,475)	659,169
Deposits from customers		3,104,146	6,829,515
Obligation under repurchase agreements		2,169,309	4,402,519
Other liabilities and provisions		985,507	176,632
Interest received		6,139,061	6,901,112
Interest paid		(3,259,806)	(3,422,852)
Income taxes paid		(272,600)	(324,987)
Cash provided by operating activities		**(3,729,715)**	**9,590,547**
Cash flows from investing activities:			
Dividends received		6,047	5,488
Acquisition of property and equipment	15	(96,842)	(84,026)
Proceeds from the sale of property and equipment		56,278	49,143
Acquisition of intangible assets	15	(18,328)	(22,571)
Proceeds from the sale of intangible assets		-	2,139
Acquisition of equity participations	14	-	(2,000)
Proceeds from sale of equity participations	14	-	2,150
Acquisition of investment securities		(10,620,618)	(12,569,325)
Proceeds from sale of investment securities		10,841,220	5,893,983
Cash (used in)/provided by investing activities		**167,757**	**(6,725,019)**
Cash flows from financing activities:			
Repayments of funds borrowed		(2,530,675)	(3,447,123)
Proceeds from funds borrowed		4,581,709	1,974,685
Dividends paid		(121,094)	(6,377)
Cash (used in)/provided by financing activities		**1,929,940**	**(1,478,815)**
Effect of foreign exchange rate fluctuations on cash and cash equivalents		1,202	7,961
Net increase/(decrease) in cash and cash equivalents		(1,630,816)	1,394,674
Cash and cash equivalents at the beginning of the year	7	8,774,294	7,379,620
Cash and cash equivalents at the end of the year	7	**7,143,478**	**8,774,294**

The notes on pages 8 to 72 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements:

1. Overview of the Bank

(a) Brief History

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı ("the Bank") was established under the authorization of special law numbered 6219, called "the Law of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı", on 11 January 1954 within the framework of the authority granted to the General Directorate of the Foundations. Operational activities of the Bank as stated at its Articles of Association are as follows:

- Lending loans by obtaining securities and real estate as collateral,
- Establishing or participating in all kinds of insurance corporations,
- Trading real estate,
- Providing all banking operations and services,
- Investing in various corporations handed over by the foundations and the General Directorate of the Foundations in accordance with conditions stipulated by agreements if signed.
- To render banking services to the foundations and carry out cashier transactions of the General Directorate of Foundations in compliance with the agreements signed by the General Directorate of the Foundations.

The Bank provides corporate, commercial and retail banking services through a network of 634 domestic branches and 2 foreign branches in New York and Bahrain (31 December 2009: 543 domestic, 2 foreign, in total 545 branches). Additionally, the Bank has a bank which is located in Austria. As at 31 December 2010, the Bank has 11,077 (31 December 2009: 10,153) employees. The Bank's head office is located at Atatürk Bulvarı No:207, Kavaklıdere - Ankara.

(b) Ownership

The shareholder having control over the shares of the Bank is the General Directorate of the Foundations having 43.00% of outstanding shares of the Bank. Another organization holding shares in the Bank is Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (the pension fund of the employees of the Bank), having 16.10% of outstanding shares of the Bank.

The 25.18% of the Bank's outstanding shares that are publicly traded in Istanbul Stock Exchange, were publicly offered at a price between TL 5.13-5.40 for each share having a nominal value of TL 1, on 18 November 2005.

(Currency – Thousands of Turkish Lira (TL))

1. Overview of the Bank *(continued)*

(b) Ownership *(continued)*

As at 31 December 2010 and 2009, The Bank's paid-in capital amounted to TL 2,500,000, divided into 250.000.000.000 shares with a nominal value of 1 Kuruş each (1 TL equals to 100 Kuruş). As at 31 December 2010 and, the Bank's shareholders' structure was as disclosed below:

Shareholders	Number of the Shares	Nominal Value of the Shares – Thousands of TL	Share Percentage (%)
The General Directorate of the Foundations (Group A)	1.075.058.640	1,075,059	43.00
Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (Group C)	402.552.666	402,553	16.10
Foundations (Group B)	386.224.785	386,225	15.45
Other foundations (Group B)	4.623.522	4,623	0.19
Individuals and legal entities (Group C)	1.797.832	1,798	0.07
Publicly traded (Group D)	629.742.555	629,742	25.19
Total	**2.500.000.000**	**2,500,000**	**100.00**

2. Basis of preparation

(a) Statement of compliance

The Bank and its consolidated subsidiaries located in Turkey maintain their books of account and prepare their statutory financial statements in TL, the functional currency of the Bank and the related subsidiaries, in accordance with the accounting practices as promulgated by the Banking Regulation and Supervision Agency ("BRSA"), the Capital Markets Board of Turkey ("CMBT"), the Republic of Turkey Prime Ministry Undersecretariat of Treasury ("the Turkish Treasury"), the Turkish Commercial Code, and the Turkish Tax Legislation. The Bank's foreign subsidiaries maintain their books of account and prepare their statutory financial statements in US Dollar or in Euro in accordance with the regulations of the countries in which they operate.

The accompanying consolidated financial statements of the Bank and its subsidiaries (collectively "the Group") are based on the statutory records with adjustments and reclassifications for the purpose of fair presentation in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). The Group adopted all IFRSs, which were mandatory as at 31 December 2010.

The accompanying consolidated financial statements were authorized by the Bank management on 6 April 2011. The accompanying consolidated financial statements are subject to approval of the General Assembly. It is not intended but the General Assembly and certain regulatory bodies have power to amend the statutory financial statements after issue.

(b) Basis of measurement

The accompanying consolidated financial statements are prepared in accordance with the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except for the items presented on a fair value basis that are financial assets at fair value through profit or loss, derivative financial assets and liabilities held for trading purpose, available-for-sale financial assets and equity participations whose fair value can be reliably measured.

(c) Functional currency and presentation currency

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

2. Basis of preparation *(continued)*

(d) Accounting in hyperinflationary countries

Financial statements of the entities located in Turkey have been restated for the changes in the general purchasing power of the Turkish Lira based on IAS 29 – *Financial Reporting in Hyperinflationary Economies* as at 31 December 2005. *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 reporting date, and that corresponding figures for previous years be restated in the same terms. One characteristic that necessitates the application of *IAS 29* is a cumulative three-year inflation rate approaching or exceeding 100%. The cumulative three-year inflation rate in Turkey was 35.61% as at 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by the Turkish Statistical Institute. This, together with the sustained positive trend in quantitative factors, such as the stabilization in capital and money markets, decrease in interest rates and the appreciation of TL against the US Dollar and other hard currencies have been taken into consideration to categorize Turkey as a non-hyperinflationary economy under *IAS 29* effective from 1 January 2006.

(e) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgments, 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 year in which the estimate is revised and in any future years affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in the following notes:

- Note 4 – *Financial risk management*
- Note 5 – *Insurance risk management*
- Note 11 – *Loans and advances to customers*
- Note 12 – *Finance lease receivables*
- Note 15 – *Property and equipment and intangible assets*
- Note 20 – *Other liabilities and provisions including insurance contract liabilities*
- Note 21 – *Income taxes*

(f) Changes in accounting policies

Effective 1 January 2010 the Group has changed its accounting policies in the following areas:

Presentation of financial statements *(continued)*

The Group has presented insurance contract liabilities in gross amounts, which were presented net of reinsurer shares in the previous periods. In accordance with this amendment, reinsurer share of reserve for unearned insurance premiums as at 31 December 2009 amounting to TL 171,086 has been added to the reserve for unearned insurance premiums balance; and reinsurer share of provision for outstanding claims as at 31 December 2009 amounting to TL 140,713 has been added to the provision for outstanding claims balance. Receivables from insurance activities have been increased by the total amount of the reinsurer shares of insurance technical provisions amounting to TL 311,799. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

2. Basis of preparation *(continued)*

(f) Changes in accounting policies *(continued)*

Presentation of financial statements *(continued)*

The Group has presented equity securities not subject to consolidation in available for sale investment securities which were presented under investment in equity participations in the previous periods. Beginning from current period these equity securities have been presented as investment securities and in accordance with this amendment equity securities which were presented under investment in equity participations as at 31 December 2009 amounting to TL 157,850 have been reclassified under available for sale investment securities. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

3. Significant accounting policies

(a) Basis of consolidation

The accompanying consolidated financial statements include the accounts of the parent company, the Bank, its subsidiaries and associates on the basis set out in sections below. The financial statements of the entities included in the consolidation have been prepared as at the date of these consolidated financial statements.

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Associates

Associates are those entities in which the Bank and its subsidiaries have significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Bank and its subsidiaries' share of the total recognised gains and losses of associates on an equity accounting basis, from the date that significant influence commences until the date that significant influence ceases. When the Bank and its subsidiaries' share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank and its subsidiaries has incurred obligations in respect of the associate.

Special purpose entities

Special purpose entities are the entities that are created to accomplish a narrow and well defined objective such as the securitization of particular assets, or the execution of a specific borrowing or lending transaction. Special purpose entities are consolidated when the substance of the relationship between the Group and the special purpose entity indicates that the special purpose entity is controlled by the Group.

Transactions eliminated on consolidation

Inter-company balances and transactions, and any unrealized gains and losses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates are eliminated to the extent of the Bank and its subsidiaries' interest in the entity. Unrealized gains arising from transactions with associates are eliminated against the investment in the associate. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

3. Significant accounting policies *(continued)*

(b) Foreign currency

Foreign currency transactions

Transactions are recorded in TL, which represents the Group's functional currency except for World Vakıf UBB Ltd. and Vakıfbank International AG. Transactions denominated in foreign currencies are recorded at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are converted into TL at the exchange rates ruling at the reporting date with the resulting exchange differences recognised in the consolidated statement of comprehensive income as foreign exchange gains or losses.

Foreign operations

The functional currencies of the foreign subsidiaries, World Vakıf UBB Ltd. and Vakıfbank International AG, are US Dollar and Euro, respectively, and their financial statements are translated to the presentation currency, TL, for consolidation purposes, as summarized in the following paragraphs.

-The assets and liabilities of the foreign subsidiaries are translated at the exchange rate ruling at the reporting date.

-The income and expenses of foreign operations are translated to TL using average exchange rates.

-Foreign currency differences arising from the translation of the financial statements of the net investment in foreign operations into TL for consolidation purpose are recognised in other comprehensive income as the foreign currency translation reserve ("translation reserve"). Where a foreign operation is disposed of, in part or full, the relevant amount in the translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

(c) Interest

Interest income and expense are recognised in the consolidated statement of comprehensive income using the effective interest method, except for the interest income on overdue loans. 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 Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial assets or liabilities.

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

- interest on financial assets and liabilities at amortised cost on an effective interest rate basis,
- interest on available-for-sale investment securities on an effective interest rate basis,
- interest earned till the disposal of financial assets at fair value through profit or loss.

3. Significant accounting policies *(continued)*

(d) Fees and commission

Fees and commission income and expenses 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, placement fees and syndication fees, commissions for insurance business (see also accounting policy *(t)*) are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

(e) Net trading income

Net trading income includes gains and losses arising from disposals of financial assets at fair value through profit or loss, the disposal of available-for-sale financial assets, and gains and losses on derivative financial instruments held for trading purpose.

(f) Dividends

Dividend income is recognised when the right to receive the income is established. Dividends are reflected as a component of other operating income.

(g) Lease payments made

Payments made under operating leases are recognised in the consolidated statement of comprehensive income on a straight-line basis over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(h) Income taxes

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 in other comprehensive income.

Corporate tax

Turkey

Statutory income is subject to corporate tax at 20.0%. This rate is applied to accounting income modified for certain exemptions (like dividend income) and deductions (like investment incentives), and additions for certain non-tax deductible expenses and allowances for tax purposes. If there is no dividend distribution planned, no further tax charges are made.

Dividends paid to resident institutions and institutions working through local offices or representatives are not subject to withholding tax. Except for the dividend payments to those institutions, the withholding tax rate on the dividend payments is 15.0%. In applying the withholding tax rates on dividend payments to nonresident institutions and individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

3. Significant accounting policies *(continued)*

(h) Income taxes *(continued)*

Corporate tax *(continued)*

Prepaid corporate taxes for every three months are computed and paid using the related period's tax rate. The payments can be deducted from the annual corporate tax calculated for the whole year earnings.

75% of gains on disposal of equity shares and immovables which were held for at least 2 years within the assets of acquired entities after acquisition, are exempt from taxation if such gains are added to paid-in capital or kept under equity as restricted funds for at least 5 years.

In accordance with the tax legislation, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous periods.

There is no procedure for a final and definite agreement on tax assessments. Companies file their tax returns with their tax offices by the end of the 25th day of the fourth month following the close of the accounting period 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.

Foreign subsidiaries

The corporate tax rate for the associate in the Turkish Republic of Northern Cyprus has been determined as 2.0% and this associate is exempted from stamp duty tax.

The corporate tax rate for the Group's subsidiary in Austria has been determined as 25.0%. Prepaid corporate taxes for every three months are computed and paid using the related period's tax rate. Taxes which have been paid for previous periods can be deducted from corporate taxes computed on annual taxable income. According to the Double Taxation Treaty Agreement between Turkey and Austria, Turkish corporations in Austria possess the right to benefit from tax returns of 10.0% on interest earned from the investments and loans granted in Turkey.

Deferred taxes

Deferred tax assets and liabilities are recognised on all taxable temporary differences arising between the carrying values of assets and liabilities in the financial statements and their corresponding balances considered in the calculation of the tax base, except for the differences not deductible for tax purposes and initial recognition of assets and liabilities which affect neither accounting nor taxable profit.

The deferred tax assets and liabilities are reported as net in the consolidated financial statements only if the Group has a legal right to present the net value of current year tax assets and current year tax liabilities and the deferred tax assets and deferred tax liabilities are income taxes of the same taxable entity.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. 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 realized.

3. Significant accounting policies *(continued)*

(h) Income taxes *(continued)*

Transfer pricing regulations

In Turkey, the transfer pricing provisions have been stated under the Article 13 of the 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 the sale or purchase of goods and services with related parties, where the prices are not set in accordance with the 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.

The files that should be sent to the tax authorities are prepared in accordance with the existing transfer pricing regulations. However such documents 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.

Investment incentives

As per the provisional Article no. 69, effective from 1 January 2006, added to the Income Tax Law no. 193 by Law no. 5479 dated 8 April 2006 and published in Official Gazette no. 26133, tax payers could deduct investment incentives which were calculated according to the legislative provisions (including tax rate related provisions) in force on 31 December 2005, only from the taxable income for the years 2006, 2007, and 2008. The rights of tax payers who could not deduct investment incentives fully or partially due to insufficient taxable income during those years, were lost as at 31 December 2008.

In accordance with the decision taken by the Turkish Constitutional Court on 15 October 2009, the “2006, 2007 and 2008 ….” clause of the provisional Article no. 69 of the Income Tax Law mentioned above, is repealed and the time limitation for the use of the investment incentive is removed. The repeal related to the investment incentive was enacted and issued in the 8 January 2010 Official Gazette number 27456. Accordingly, the Group’s subsidiary operating in finance leasing business will be able to deduct its remaining investment incentives from taxable income in the future without any time limitation.

Because withholding tax at 19.8% of the investment incentive amount in respect of certificates obtained prior to 24 April 2003 is expected, the benefit to the Group of using the investment incentive is computed as 0.2% which is the difference between the existing tax rate and the withholding tax rate. Accordingly, as at 31 December 2010, TL 242 (31 December 2009: TL 224) deferred tax asset is calculated over TL 120,834 (31 December 2009: TL 112,195) which is deductible from future taxable income.

The total investment incentive qualifying after 24 April 2003 amounted to TL 80,738 which is indexed by the growth rate of the producer price index and calculated as TL 118,995 (31 December 2009: TL 105,798) as at 31 December 2010. Since the Group will be able to deduct this amount from its future taxable income, deferred tax assets amounted TL 23,799 (31 December 2009: TL 21,160) is recognised based on investment incentives qualifying after 24 April 2003.

The total investment incentive qualifying in between 1 January - 8 April 2006 amounted to TL 4,923 which is indexed by the growth rate of the producer price index and calculated as TL 6,503 as at 31 December 2010. Since the Group will be able to deduct this amount from its future taxable income, deferred tax assets amounted TL 1,301 is recognised.

3. Significant accounting policies *(continued)*

(i) Financial instruments

Recognition

The Group initially recognises loans and advances and deposits on the date which they are originated. Regular way purchases and sales of financial assets are recognised on the trade date on which the Group commits to purchase or sell the asset. All other financial assets and liabilities are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

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

Classification

Financial assets at fair value through profit or loss are trading financial assets acquired principally with the intention of disposal within a short period for the purpose of short-term profit making and *derivative financial instruments*. All trading derivatives in a net receivable position (positive fair value) are reported as financial assets at fair value through profit or loss. All trading derivatives in a net payable position (negative fair value) are reported as financial liabilities at fair value through profit or loss under other liabilities and provisions.

Held-to-maturity investment securities are financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity. These include certain debt securities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group does not intend to sell immediately or in the near term. They arise when the Group provides money, goods and services directly to a debtor with no intention of trading the receivable. Loans and receivables comprise loans and advances to banks and customers.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially a similar asset) at a fixed price on a future date ("reverse repo" or "stock borrowing"), the arrangement is accounted for as a loan and advance, and the underlying asset is not recognised in the Group's financial statements. Such financial assets are presented separately on the face of consolidated statement of financial position.

Available-for-sale financial assets are the financial assets that are not held for trading purposes, loans and advances to banks and customers, or held to maturity. Available-for-sale financial assets mainly include certain debt securities issued by the Turkish Government.

Financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity.

See also *specific instruments* below.

Measurement

A financial asset or 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.

Subsequent to initial recognition, all financial assets at fair value through profit or loss and all available-for-sale financial assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

3. Significant accounting policies *(continued)*

(i) Financial instruments *(continued)*

Measurement *(continued)*

All non-trading financial liabilities, loans and receivables and held-to-maturity investment securities are measured at amortised cost less impairment losses. 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 principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-related measures at the reporting date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties.

Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of financial instruments are recognised in the consolidated statement of comprehensive income as interest on securities.

Gains and losses arising from a change in the fair value of available-for-sale financial assets are recognised as other comprehensive income in the fair value reserve for available-for-sale financial assets. When the financial assets are sold, collected or otherwise disposed of, the related cumulative gain or loss recognised in the other comprehensive income is transferred to profit or loss. Interest earned whilst holding available-for-sale financial assets, held-to-maturity securities and financial assets at fair value through profit or loss is reported as interest income in the consolidated statement of comprehensive income.

Derecognition

A financial asset is derecognised when the control over the contractual rights that comprise that asset is lost. This occurs when the rights are realized, expire or are surrendered.

Available-for-sale financial assets and financial assets at fair value through profit or loss that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as at the date the Group commits to sell the assets. The specific identification method is used to determine the gain or loss on derecognition.

Held-to-maturity assets and loans and receivables are derecognised on the date they are transferred by the Group.

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

See also accounting policies *3(j)* and *(k)*.

3. Significant accounting policies *(continued)*

(i) Financial instruments *(continued)*

Offsetting

Financial assets and liabilities are set off and the net amount presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

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

Specific instruments

Cash and cash equivalents: Cash and cash equivalents which is a base for preparation of consolidated statement of cash flows includes cash in TL, cash in FC (foreign currency), cheques, balances with the Central Bank, money market placements and loans and advances to banks whose original maturity is less than 3 months.

Investments: Investments held for the purpose of short-term profit-taking are classified as trading instruments. Debt investments that the Bank and its subsidiaries have the intent and ability to hold to maturity are classified as held-to-maturity assets.

Loans and advances to banks and customers: Loans and advances provided by the Group to banks and customers are classified as loans and receivables, and reported net of allowances to reflect the estimated recoverable amounts.

Minimum lease receivables: Leases where the entire risks and rewards incident to ownership of an asset are substantially transferred to the lessee, are classified as finance leases. A receivable at an amount equal to the present value of the lease payments, including any guaranteed residual value, is recognised. The difference between the gross receivable and the present value of the receivable is unearned finance income and is recognised over the term of the lease using the effective interest method. Minimum lease receivables are included in loans and advances to customers.

Factoring receivables: Factoring receivables are the loans and advances to customers arising from a financial transaction whereby the customers sell their accounts receivable (i.e., invoices) to the Group at a discount in exchange for immediate money with which to finance continued business. Factoring receivables are measured at amortised cost using the effective interest method after deducting unearned interest income and specific provision if impairment exists.

Deposits from banks and customers and funds borrowed: Deposits from banks and customers and funds borrowed are the Group's sources of debt funding. Deposits from banks and customers and funds borrowed are initially measured at fair value plus directly attributable transactions costs, and subsequently measured at their amortised cost using the effective interest method.

3. Significant accounting policies *(continued)*

(i) Financial instruments *(continued)*

Identification and measurement of impairments

At each reporting date the Group assesses whether there is objective evidence that financial assets or group of financial assets is impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Loans and receivables are presented net of specific allowances for uncollectibility. Specific allowances are made against the carrying amounts of loans and receivables that are identified as being impaired, based on regular reviews of outstanding balances, to reduce these loans and receivable to their recoverable amounts. In assessing the recoverable amounts of loans and receivables, the estimated future cash flows are discounted to their present value. Increases in the allowance account are recognised in the consolidated statement of comprehensive income. When a loan is known to be uncollectible, after all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly. If in a subsequent period, the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write-down or allowance is reversed through the consolidated statement of comprehensive income.

The recoverable amount of an equity instrument is its fair value. The recoverable amount of debt instruments and purchased loans re-measured to fair value is calculated as the present value of the expected future cash flows discounted at the current market rate of interest.

All impairment losses are recognised in the consolidated statement of comprehensive income. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the consolidated statement of comprehensive income, when the related asset is derecognised.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the consolidated statement of comprehensive income. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in other comprehensive income.

(j) Repurchase transactions

The Group enters into purchases/sales of investments under agreements to resell/repurchase substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised as receivables from reverse repurchase agreements in the accompanying consolidated financial statements. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognised in the consolidated statement of financial position and are measured in accordance with the accounting policy for either assets held for trading, held to maturity or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as obligations under repurchase agreements.

Income and expenses arising from the repurchase and resale agreements over investments are recognised on an accruals basis over the period of the transaction and are included in “interest income” or “interest expense”.

(Currency – Thousands of Turkish Lira (TL))

3. Significant accounting policies *(continued)*

(k) Securitisations

The Group securitises its diversified payment rights. In applying its policies on securitised financial assets, the Group has considered both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Group over the other entity.

When the Group, in substance, controls the entity to which financial assets have been transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the Group's consolidated statement of financial position.

When the Group has transferred financial assets to another entity, but has not transferred substantially all of the risk and rewards relating to the transferred assets, the assets are recognised in the Group's consolidated statement of financial position.

(l) Property and equipment

The cost of the property and equipment purchased before 31 December 2005 is restated from the purchasing dates to 31 December 2005, the date the hyperinflationary period is considered to have ended. The inflation adjustment of the property and equipment that is subject to correction for the first time until 31 December 2005 has been calculated on the basis of cost obtained by deducting foreign exchange differences, financing expenses and revaluation increases, if any, from the historical cost. Property and equipment obtained after 31 December 2005 have been recorded at the cost.

Gains/losses arising from the disposal of the property and equipment are recognised in the consolidated statement of comprehensive income and calculated as the difference between the net book value and the net sales price. Maintenance and repair costs incurred for property and equipment are recorded as expense.

There are no changes in the accounting estimates that are expected to have an impact in the current or subsequent periods.

Property and equipment are depreciated based on the straight line method. Depreciation rates and estimated useful lives are:

Property and equipment	**Estimated useful lives (years)**	**Depreciation Rates (%)**
Buildings	50	2
Office equipment, furniture and fixture, and motor vehicles	5-10	10-20
Assets obtained through finance leases	4-5	20-25

(m) Investment property

Investment property is the property held either to earn rental income or for capital appreciation or for both. The Group holds some investment property as a consequence of the ongoing rationalization of its real estate company and insurance companies, consolidated in the accompanying consolidated financial statements.

Investment properties are measured initially at cost including transaction costs.

Subsequent to initial recognition, the Group measured all investment property based on the cost model in accordance with the cost model for property and equipment (i.e. at cost less accumulated depreciation and less any accumulated impairment losses). Estimated useful lives of investment properties and depreciation rates are 50 years and 2.0%, respectively.

3. Significant accounting policies *(continued)*

(n) Intangible assets

The Group's intangible assets consist of software programmes. Intangible assets are recorded at cost.

The costs of the intangible assets purchased before 31 December 2005 are restated from the purchasing dates to 31 December 2005, the date the hyperinflationary period is considered to be ended. The intangible assets purchased after this date are recorded at their historical costs. The intangible assets are amortised based on straight line amortisation. The economic lives of intangible assets vary within the range of three and fifteen years and hereby the amortisation rates applied are within 33.33% and 6.66%.

(o) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists for as particular asset or a group of assets, then that asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the consolidated statement of comprehensive income.

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.

Impairment losses in respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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.

(p) Provisions

A provision is recognised if, as a result of a past event, the Group 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 restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

(Currency – Thousands of Turkish Lira (TL))

3. Significant accounting policies *(continued)*

(q) Employee benefits

Pension and other post-retirement obligations

The Bank has a defined benefit plan for its employees as described below:

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee and his/her dependants will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

T. Vakıflar Bankası T.A.O. Memur ve Hizmetleri Emekli ve Sağlık Yardım Sandığı Vakfı ("the Fund"), is a separate legal entity and a foundation recognised by an official decree, providing pension and post-retirement medical benefits to all qualified Bank employees. The Fund has a defined benefit plan ("the Plan") under which the Bank pays a mixture of fixed contributions, and additional contractual amounts. The Plan is funded through contributions of both by the employees and the employer as required by Social Security Law numbered 506 and these contributions are as follows:

	Employer %	Employee %
Pension contributions	11.0	9.0
Medical benefit contributions	8.0	5.0

This Plan is composed of the contractual benefits of the employees, which are subject to transfer to the Social Security Foundation ("SSF") ("pension and medical benefits transferable to SSF") and other excess social rights and payments provided in the existing trust indenture but not transferable to SSF and medical benefits provided by the Bank for its constructive obligation ("excess benefits").

As a result of the changes in legislation described below, the Bank will transfer a substantial portion of its pension liability under the Plan to SSF. This transfer, which will be a settlement of the Bank's obligation in respect of the pension and medical benefits transferable to SSF, will occur within three years from the enactment of the Law no. 5754: "Law regarding the changes in Social Insurance and General Health Insurance Law and other laws and regulations" ("New Law") in May 2008. The actual date of the transfer has not been specified yet.

Pension and medical benefits transferable to SSF:

As per the provisional Article no. 23 of the Turkish Banking Law no. 5411 ("Banking Law") as approved by the Turkish Parliament on 19 October 2005, pension funds which are in essence similar to foundations are required to be transferred directly to SSF within a period of three years. In accordance with the Banking Law, the actuarial calculation of the liability, if any, on the transfer should be performed having regard to the methodology and parameters determined by the commission established by the Ministry of Labour and Social Security. Accordingly, the Bank calculated the pension benefits transferable to SSF in accordance with the Decree published by the Council of Ministers in the Official Gazette no. 26377 dated 15 December 2006 ("Decree") for the purpose of determining the principles and procedures to be applied during the transfer of funds. However the said Article was vetoed by the President and at 2 November 2005 the President initiated a lawsuit before the Turkish Constitutional Court in order to rescind certain paragraphs of the provisional Article no. 23.

3. Significant accounting policies *(continued)*

(q) Employee benefits *(continued)*

Pension and other post-retirement obligations *(continued)*

On 22 March 2007, the Turkish Constitutional Court reached a verdict with regards to the suspension of the execution of the first paragraph of provisional Article no. 23 of the Turkish Banking Law, which requires the transfer of pension funds to SSF, until the decision regarding the cancellation thereof is published in the Official Gazette. The Constitutional Court stated in its reasoned ruling published in the Official Gazette no. 26731, dated 15 December 2007 that the reason behind this cancellation was the possible loss of antecedent rights of the members of pension funds. Following the publication of the verdict, the Grand National Assembly of Republic of Turkey ("Turkish Parliament") worked on the new legal arrangements by taking the cancellation reasoning into account. On 17 April 2008, the New Law was accepted by the Turkish Parliament and was enacted on 8 May 2008 following its publication in the Official Gazette no. 26870. In accordance with the New Law, members of the funds established in accordance with the Social Security Law should be transferred to SSF within three years following its enactment date.

Excess benefit not transferable to SSF:

The other social rights and payments representing benefits in excess of social security limits are not subject to transfer to SSF.

Actuarial evaluation:

The technical financial statements of the Fund are audited by the certified actuary according to the "Actuaries Regulation" which is issued as per Article no. 21 of the Insurance Law no. 5684. As per the actuarial report dated February 2011 which is prepared in accordance with IAS 19 – *Employee Benefits*, there is no technical or actual deficit determined which requires provision against.

Reserve for employee severance indemnity

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank and its subsidiaries arising from the retirement of the employees and calculated in accordance with the Turkish Labour Law. IFRSs require actuarial valuation methods to be developed to estimate the entity's obligation under reserve for employee severance indemnity.

Other benefits to employees

The Group has provided for undiscounted employee benefits earned during the financial period as per services rendered in the accompanying consolidated financial statements.

(r) Items held in trust

Assets, other than cash deposits, held by the Group in fiduciary or agency capacities for their customers and government entities are not included in the accompanying consolidated statement of financial position, since such items are not the assets of the Group.

(s) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable. Financial guarantees are included within other liabilities.

3. Significant accounting policies *(continued)*

(t) Insurance business

Through its insurance subsidiaries, the Group enters into contracts that contain insurance risk. An insurance contract is a contract under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Insurance risk covers all risks except for financial risks.

Investment contracts are those contracts which transfer financial risk without significant insurance risk. Financial risk is the risk of a possible future change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided, that it is not specific to a party to the contract, in the case of a non-financial variable.

Insurance and investment contracts issued/signed by the insurance subsidiaries are accounted for as follows:

Earned premiums: For short-term insurance contracts, premiums are recognised as revenue, net of premiums ceded to reinsurance firms, proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at reporting date is recognised as the reserve for unearned premiums that are calculated on a daily pro-rata basis. Premiums are shown before deduction of commissions given or received and deferred acquisition costs, and are gross of any taxes and duties levied on premiums.

For long-term insurance contracts, premiums are recognised as revenue when the premiums are due from the policyholders. Earned premiums, net of amounts ceded for reinsurance are recorded under operating income in the accompanying consolidated statement of comprehensive income.

Premium received for an investment contract, is not recognised as revenue. Premiums for such contracts are recognised directly as liabilities.

Reserve for unearned premiums: The reserve for unearned premiums represents the proportions of the premiums written in a period that relate to the period of risk subsequent to the reporting date, without deductions of commission or any other expense. Reserve for unearned premiums is calculated for all contracts except for the insurance contracts for which the Group provides actuarial provisions. The reserve for unearned premiums is also calculated for the annual premiums of the annually renewed long-term insurance contracts. The reserve for unearned premiums is presented under other liabilities and provisions in the accompanying consolidated statement of financial position.

Reserve for outstanding claims: The reserve for outstanding claims represents the estimate of the total reported costs of notified claims on an individual case basis at the reporting date as well as the corresponding handling costs. A provision for claims incurred but not reported ("IBNR") is also established as described below. In the accompanying consolidated financial statements, reserve for outstanding claims is presented by netting off amounts recoverable from reinsurers under other liabilities and provisions. Estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of IBNR claims at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. The primary technique adopted by management in estimating the cost of IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends. At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. In addition to that, the Group also reassesses its notified claims provision at each reporting date on an 'each claim-file' basis. The reserve for outstanding claims is not discounted for the time value of money. The reserve for outstanding claims is presented under other liabilities and provisions in the accompanying consolidated statement of financial position.

3. Significant accounting policies *(continued)*

(t) Insurance business *(continued)*

Long term insurance contracts: Long term insurance contracts are the provisions recorded against the liabilities of the Group to the beneficiaries of long-term life, health and individual accident policies based on actuarial assumptions.

Long term insurance contracts are calculated as the difference between the net present values of premiums written in return of the risk covered by the Group and the liabilities to policyholders for long-term insurance contracts based on the basis of actuarial mortality assumptions as approved by the Republic of Turkey Prime Ministry Undersecretariat of Treasury, which are applicable for all Turkish insurance companies.

Long term insurance contracts are presented under other liabilities and provisions in the accompanying consolidated financial statements.

Investment contracts: Premiums received for such contracts are recognised directly as liabilities under investment contract liabilities. These liabilities are increased by bonus rate calculated by the Group and are decreased by policy administration fees, mortality and surrender charges and any withdrawals. Profit sharing reserves are the reserves provided against income obtained from asset backing investment contracts. These contracts entitle the beneficiaries of those contracts to a minimum guaranteed crediting rate per annum or, when higher, a bonus rate declared by the Group from the eligible surplus available to date.

Deferred acquisition cost and deferred commission income: Commissions and other acquisition costs given to the intermediaries that vary with and are related to securing new contracts and renewing existing insurance contracts are capitalized as deferred acquisition cost. Deferred acquisition costs are amortised on a straight-line basis over the life of the contracts. Deferred acquisition costs are presented under other assets in the accompanying consolidated financial statements.

Commission income obtained against premiums ceded to reinsurance firms are also deferred and amortised on a straight-line basis over the life of the contracts. Deferred commission income is presented under other liabilities and provisions in the accompanying consolidated financial statements.

Liability adequacy test: At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related deferred acquisition costs. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses are taken into consideration. Any deficiency is immediately charged to the consolidated statement of comprehensive income.

If the result of the test is that a loss is required to be recognised, the first step is to reduce any intangible item arising from business combinations related to insurance. If there is still a loss remaining, then the deferred acquisition cost is reduced to the extent that expense loadings are considered not recoverable. Finally, if there is a still remaining amount of loss, this should be booked as an addition to the reserve for premium deficiency.

(u) Individual pension business

Individual pension system receivables presented under ‘other assets’ in the accompanying consolidated financial statements consists of ‘receivable from pension investment funds for investment management fees’, ‘entrance fee receivable from participants’ and ‘receivables from the clearing house on behalf of the participants’. Pension funds are the mutual funds that the individual pension companies invest in, by the contributions of the participants. Shares of the participants are kept at the clearing house on behalf of the participants.

‘Receivable from pension investment funds for investment management fees’ are the fees charged to the pension funds for the administration and portfolio management services provided. ‘Receivables from the clearing house on behalf of the participants’ are the receivables from the clearing house on pension fund basis against the contributions of the participants. The same amount is also recorded as payables to participants for the funds acquired against their contributions under the ‘individual pension system payables’.

3. Significant accounting policies *(continued)*

(u) Individual pension business *(continued)*

In addition to the 'payables to participants' account, mentioned in the previous paragraph, *individual pension system payables* also includes participants' temporary accounts, and payables to individual pension agencies. The temporary account of participants includes the contributions of participants that have not yet been invested. Individual pension system payables are presented under other liabilities and provisions in the accompanying consolidated financial statements.

Fees received from individual pension business consist of investment management fees, fees levied on contributions and entrance fees. Fees received from individual pension business are recognised in other income in the accompanying consolidated statement of comprehensive income.

Investment management fees are the fees charged to the pension funds against the hardware, software, personnel and accounting services provided to those pension funds.

Fees levied on contributions may be deducted over the participants' contributions for the operational costs of the services rendered by the Group. The upper limit for such deductions is 8% over the contributions.

Entrance fees are received by the Group from participants during entry into the system and for the opening of a new individual pension account. In some pension plans, the Group receives some or all of the entrance fees when the participants leave the group before the completion of a 5-years 'staying period'. If the participants keep their pension accounts in the Group more than 5 years, the entrance fee is not charged in these pension plans. In such cases, the Group does not recognise the entrance fee as revenue.

(v) Earnings per share

Earnings per share from continuing operations disclosed in the accompanying consolidated statement of comprehensive income is determined by dividing the net profit for the year by the weighted average number of shares outstanding during the year attributable to the shareholders of the Bank. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, such Bonus Shares issued are regarded as issued shares.

(w) Subsequent events

Post-balance sheet events that provide additional information about the Group's position at the reporting dates (adjusting events) are reflected in the consolidated financial statements. Post-balance sheet events that are not adjusting events are disclosed in the notes when material.

(x) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Board of Directors (being chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

3. Significant accounting policies *(continued)*

(y) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations which are not effective as of 31 December 2010 have not been applied in preparing these financial statements and are not expected to have any impact on the consolidated financial statements of the Group except for IFRS 9.

IFRS 9 – *Financial Instruments* which was published by International Accounting Standards Board in October 2009 as a part of a wider project that aims to bring new regulations to replace IAS 39 – *Financial Instruments: Recognition and Measurement*.

The objective of *IFRS 9*, being the first phase of the project, is to establish principles for the financial reporting of financial assets that will present relevant and useful information to users of financial statements for their assessment of amounts, timing and uncertainty of the entity's future cash flows. With *IFRS 9* an entity shall classify financial assets as subsequently measured at either amortized cost or fair value on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristic of the financial assets. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.

An entity shall apply IFRS 9 for annually periods beginning on or after 1 January 2013. An earlier application is permitted. If an entity adopts this IFRS in its financial statements for a period beginning before 1 January 2013, then prior periods are not needed to be restated.

Standards which are not yet entered into force and not expected to have material impact on the accompanying financial statements:

- IFRS 1– *First Time Adoption of International Financial Reporting Standards*; amendments resulting from May 2010 annual improvements to IFRSs. Amendment will be effective annual periods beginning on or after 1 January 2011.
- IFRS 1– *First Time Adoption of International Financial Reporting Standards*; replacement of 'fixed dates' for certain exceptions with 'the date of transition to IFRSs'. Amendment will be effective annual periods beginning on or after 1 July 2011.
- IFRS 1– *First Time Adoption of International Financial Reporting Standards*; additional exemption for entities ceasing to suffer from severe hyperinflation. Amendment will be effective annual periods beginning on or after 1 July 2011.
- IFRS 7 – *Financial Instruments: Disclosures*; amendments resulting from May 2010 annual improvements of IFRSs. Amendment will be effective periods beginning on or after 1 January 2011.
- IFRS 7 – *Financial Instruments: Disclosures*; amendments enhancing disclosures about transfers of financial assets. Amendment will be effective annual periods beginning on or after 1 July 2011.
- IAS 1 – *Presentation of Financial Statements;* amendments resulting from May 2010 annual improvements to IFRSs. Amendment will be effective annual periods beginning on or after 1 January 2011.
- IAS 12 – *Income Taxes;* limited scope amendment (recovery of underlying assets). Amendment will be effective annual periods beginning on or after 1 January 2012.
- IAS 24 – *Related Party Disclosures;* revised definition of related parties. Amendment will be effective annual periods beginning on or after 1 January 2011.
- IAS 34 – *Interim Financial Reporting*; amendments resulting from May 2010 annual improvements to IFRSs. Amendment will be effective annual periods beginning on or after 1 January 2011.
- IFRIC 13 – *Customer Loyalty Programmes*; amendments resulting from May 2010 annual improvements to IFRSs. Amendment will be effective annual periods beginning on or after 1 January 2011.
- IFRIC 14 – *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*; November 2009 amendment with respect to voluntary prepaid contributions.

4. Financial risk management

(a) Introduction and overview

This note presents information about the Group's exposure to each of the risks below, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. The Group has exposure to the following risks from its use of financial instruments:

- credit risk,
- liquidity risk,
- market risks,
- operational risks.

Risk management framework

The Board of Directors of the Bank has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors monitors the effectiveness of the risk management system through the Audit Committee. Consequently, the Risk Management Department of the Bank, which carries out the risk management activities and works independently from executive activities, report to the Board of Directors.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The risks are measured using internationally accepted methodologies, in compliance with local and international regulations, and the Bank's structure, policy and procedures. It is aimed to develop these methodologies to enable the Bank to manage the risks effectively. At the same time, studies for compliance with the international banking applications, such as Basel II, are carried out.

In order to ensure the compliance with the rules as altered pursuant to Articles 23, and 29 to 31 of the Banking Law no. 5411 and Articles 36 to 42 of the Regulation on Internal Systems within the Banks, dated 1 November 2006 the Bank revised the written policies and implementation procedures regarding management of each risk encountered in its activities in February 2007.

Audit Committee: The Audit Committee consists of two members of the Board of Directors who do not have any executive functions. The Audit Committee, established to assist the Board of Directors in its auditing and supervising activities, is responsible for:

- The supervision of the efficiency and effectiveness of the internal control, risk management and internal audit systems of the Group, functioning of these systems as well as accounting and reporting systems within the framework of related procedures, and the integrity of information generated;
- The preliminary assessment on the selection process of independent audit firms and the systematic monitoring of the activities of these companies;
- The maintenance and coordination of the internal audit functions of corporations subject to consolidated internal audits.

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(b) Credit risk

Credit risk is defined as the probability of loss if the customer or counterparty fails to meet its obligations partially or completely on the terms set. Credit risk is considered in depth, covering the counterparty risks arising from not only from loans and debt securities but also credit risks originating from the transactions defined as loans in the Banking Law.

Management of credit risk

For credit risk management purposes the Risk Management Department is involved in

- the determination of credit risk policies in coordination with the Bank's other units,
- the determination and monitoring of the distribution of concentration limits with respect to sector, geography and credit type,
- contribution to the formation of rating and scoring systems,
- submitting to the Board of Directors and the senior management not only credit risk management reports about the credit portfolio's distribution (borrower, sector, geographical region), credit quality (impaired loans, credit risk ratings) and credit concentration, but also scenario analysis reports, stress tests and other analyses, and
- studies regarding the formation of advanced credit risk measurement approaches.

Exposure to credit risk

	Loans and advances to customers		**Other assets expose to credit risk (inc. financial assets other than loans and advances to customers) (*)**	
	31 December 2010	**31 December 2009**	**31 December 2010**	**31 December 2009**
Individually impaired	2,427,742	2,366,091	44,143	20,160
Allowance for impairment	(2,330,316)	(2,171,275)	(37,566)	(14,588)
Carrying amount	**97,426**	**194,816**	**6,577**	**5,572**
Past due but not impaired	291,582	351,349	-	88,619
Carrying amount	**291,582**	**351,349**	**-**	**88,619**
Neither past due nor impaired	44,248,685	34,205,238	33,401,218	33,481,541
Loans with renegotiated terms	604,889	263,216	-	-
Carrying amount	**44,853,574**	**34,468,454**	**33,401,218**	**33,481,541**
Total carrying amount	**45,242,582**	**35,014,619**	**33,407,795**	**33,575,732**

(*) Non-cash loans are also included as converted into loans by using weighting rates as promulgated by BRSA.

As at 31 December 2010 and 2009, the Group has no allowance for loans and advances to banks and investment securities.

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Sectoral distribution of the performing loans and advances to customers

	31 December 2010	31 December 2009
Consumer loans	13,511,159	9,202,303
Mortgage loans	*5,938,552*	*3,954,650*
General purpose loans	*3,268,153*	*4,136,093*
Overdraft checking accounts	*588,656*	*622,890*
Auto loans	*205,619*	*441,303*
Other consumer loans	*3,510,179*	*47,367*
Manufacturing	10,934,176	7,374,063
Wholesale and retail trade	5,244,282	4,994,496
Financial institutions	2,675,655	1,766,996
Construction	2,378,879	1,927,633
Transportation and telecommunication	2,261,472	2,087,938
Credit cards	1,436,783	1,004,298
Hotel, food and beverage services	1,008,777	879,255
Agriculture and stockbreeding	391,284	282,897
Health and social services	314,452	195,906
Others	4,988,237	5,104,018
Total performing loans and advances to customers	**45,145,156**	**34,819,803**

Impaired loans and receivables

Impaired loans and receivables are loans and receivables for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. These loans are graded 3 to 5 in the Group's internal credit risk grading system which is also in line with the regulations of BRSA.

Past due but not impaired loans

Loans and receivables where contractual interest or principal payments are past due but the Group 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 Group.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to temporary deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider.

Allowances for impairment

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

Write-off policy

The Group writes off a loan/security balance (and any related allowances for impairment losses) when it is concluded that the loans/securities are uncollectible after all the necessary legal procedures have been completed, and the final loss has been determined. This conclusion is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(b) Credit risk *(continued)*

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

31 December 2010	Loans and advances to customers		Other assets	
	Gross	Net	Gross (*)	Net (*)
Grade 3 : Individually Impaired	117,335	93,333	19,262	6,577
Grade 4 : Individually Impaired	224,627	1,447	-	-
Grade 5 : Individually Impaired	2,085,780	2,646	24,881	-
Total	**2,427,742**	**97,426**	**44,143**	**6,577**

31 December 2009	Loans and advances to customers		Other assets	
	Gross	Net	Gross (*)	Net (*)
Grade 3 : Individually Impaired	304,596	191,684	-	-
Grade 4 : Individually Impaired	340,501	-	-	-
Grade 5 : Individually Impaired	1,720,994	3,132	20,160	5,572
Total	**2,366,091**	**194,816**	**20,160**	**5,572**

(*) Impaired insurance receivables consist of non-rated customers which are presented as "Grade 5" in above table.

Collateral policy

The Group 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 loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2010 and 2009.

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

Cash loans	31 December 2010	31 December 2009
Secured loans:	29,202,427	23,500,280
Secured by mortgages	*12,514,232*	*9,944,162*
Guarantees issued by financial institutions	*326,086*	*344,992*
Secured by government institutions or government securities	*100,028*	*121,945*
Secured by cash collateral	*79,628*	*88,423*
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	*16,182,453*	*13,000,758*
Unsecured loans	15,942,729	11,319,523
Total performing loans and advances to customers	**45,145,156**	**34,819,803**

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Non-cash loans	**31 December 2010**	**31 December 2009**
Secured loans:	5,137,199	4,003,521
Secured by mortgages	*868,285*	*965,319*
Guarantees issued by financial institutions	*374,391*	*357,208*
Secured by cash collateral	*123,136*	*87,452*
Secured by government institutions or government securities	-	*123*
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	*3,771,387*	*2,593,419*
Unsecured loans	6,222,629	5,117,312
Total non-cash loans	**11,359,828**	**9,120,833**

An estimate of the fair value of collateral held against non-performing loans and receivables is as follows:

	31 December 2010	**31 December 2009**
Cash collateral (*)	-	-
Mortgages	827,538	997,361
Promissory notes (*)	28,654	4,927
Others	1,513,568	942,028
Total	**2,369,760**	**1,944,316**

(*) As a Bank policy, it is aimed to utilize cash collateral or liquidate promissory notes for an impaired loan which was previously collateralized by cash collateral or promissory notes to cover the credit risk. Hence, the cash collateral amount is shown as zero in the table.

Sectoral and geographical concentration of impaired loans

The Bank and its subsidiaries monitor concentrations of credit risk by sector and by geographic location. An analysis of concentrations of non-performing loans, finance lease and factoring receivables is shown below:

Sectoral concentration	**31 December 2010**	**31 December 2009**
Consumer loans	403,412	421,626
Construction	378,814	311,682
Textile	310,393	293,464
Food	238,153	264,577
Durable consumer goods	95,544	178,582
Service sector	55,500	237,661
Agriculture and stockbreeding	46,768	87,999
Metal and metal products	43,476	88,560
Financial institutions	11,206	12,715
Others	844,476	469,225
Total non-performing loans and advances to customers	**2,427,742**	**2,366,091**

Geographical concentration	**31 December 2010**	**31 December 2009**
Turkey	2,413,570	2,349,640
Austria	14,172	16,451
Total non-performing loans and advances to customers	**2,427,742**	**2,366,091**

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Treasury Department of the Bank receives information from other business departments regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, short-term loans and advances to domestic and foreign banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business departments and subsidiaries are met through short-term loans from the Treasury Department to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Asset-Liability Committee ("ALCO"). Daily reports cover the liquidity position of both the Bank and foreign branches. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

Exposure to liquidity risk

The calculation method used to measure the Bank's compliance with the liquidity limit is set by BRSA. Currently, this calculation is performed on a bank-only basis (not including consolidated subsidiaries). In November 2006, BRSA issued a new communiqué on the measurement of liquidity adequacy for the banks.

The Bank's banking subsidiary in the Austria is subject to a similar liquidity measurement, however the Austrian National Bank does not impose limits, but monitors the bank's overall liquidity position to ensure there is no significant deterioration in the liquidity of banks operating in Austria.

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

31 December 2010	Demand	Less than one month	1-3 months	3-12 months	1-5 Years	Over 5 years	Carrying amount
Cash and cash equivalents	4,023,093	3,034,382	391,255	679	-	-	7,449,409
Financial assets at fair value through profit or loss	1,110	16,139	24,333	37,635	128,579	10,313	218,109
Loans and advances to banks	-	12,642	30,447	170,215	8,985	-	222,289
Loans and advances to customers	97,426	7,191,855	2,324,582	8,700,281	21,278,244	5,650,194	45,242,582
Investment securities	224,558	920,214	651,652	3,017,583	7,163,897	6,510,851	18,488,755
Other assets	2,578,936	394,384	84,628	83,129	112,103	239	3,253,419
Total assets	**6,925,123**	**11,569,616**	**3,506,897**	**12,009,522**	**28,691,808**	**12,171,597**	**74,874,563**
Deposits from banks	12,578	1,398,393	157,811	421,561	-	-	1,990,343
Deposits from customers	7,252,799	25,472,933	10,252,498	2,633,710	363,335	239	45,975,514
Obligations under repurchase agreements	-	5,706,906	1,114,151	1,228,184	164,391	-	8,213,632
Funds borrowed	13,429	195,164	1,635,791	1,892,150	1,917,666	1,094,006	6,748,206
Current tax liabilities	-	-	115,062	-	-	-	115,062
Other liabilities and provisions	411,908	1,332,865	478,017	330,715	207,853	3,726	2,765,084
Total liabilities	**7,690,714**	**34,106,261**	**13,753,330**	**6,506,320**	**2,653,245**	**1,097,971**	**65,807,841**
Net	**(765,591)**	**(22,536,645)**	**(10,246,433)**	**5,503,202**	**26,038,563**	**11,073,626**	**9,066,722**

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

31 December 2009	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Cash and cash equivalents	3,355,593	5,492,901	53,431	-	-	-	8,901,925
Financial assets at fair value through profit or loss	3,211	4,105	14,049	52,935	46,439	20,519	141,258
Loans and advances to banks	-	-	26,350	45,248	30,261	-	101,859
Loans and advances to customers	194,816	5,869,168	2,772,254	7,677,575	15,326,440	3,174,366	35,014,619
Investment securities	159,327	669,504	861,483	4,070,329	10,115,269	3,107,917	18,983,829
Other assets	1,735,728	157,104	73,724	112,187	216,361	407	2,295,511
Total assets	**5,448,675**	**12,192,782**	**3,801,291**	**11,958,274**	**25,734,770**	**6,303,209**	**65,439,001**
Deposits from banks	9,372	1,640,304	450,325	56,144	-	-	2,156,145
Deposits from customers	5,905,540	25,817,064	9,049,291	1,888,579	199,820	28	42,860,322
Obligations under repurchase agreements	-	732,737	3,887,386	1,403,218	122,011	-	6,145,352
Funds borrowed	-	230,483	163,009	1,511,332	1,510,401	1,281,385	4,696,610
Current tax liabilities	-	-	84,360	-	-	-	84,360
Other liabilities and provisions	738,269	868,575	51,593	56,907	74,342	14,003	1,803,689
Total liabilities	**6,653,181**	**29,289,163**	**13,685,964**	**4,916,180**	**1,906,574**	**1,295,416**	**57,746,478**
Net	**(1,204,506)**	**(17,096,381)**	**(9,884,673)**	**7,042,094**	**23,828,196**	**5,007,793**	**7,692,523**

Residual contractual maturities of the financial liabilities

31 December 2010	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
Deposits from banks	1,990,343	**2,008,538**	12,578	1,400,222	159,431	436,307	-	-
Deposits from customers	45,975,514	**46,288,749**	7,252,799	25,654,793	10,327,736	2,662,113	390,976	332
Obligations under repurchase agreements	8,213,632	**11,411,592**	-	8,343,563	1,662,648	1,235,014	170,367	-
Funds borrowed	6,748,206	**7,054,239**	13,429	201,843	1,664,412	1,924,647	1,998,393	1,251,515
Other financial liabilities	2,765,084	**2,765,084**	411,908	1,332,865	478,017	330,715	207,853	3,726
Total	**65,692,779**	**69,528,202**	**7,690,714**	**36,933,286**	**14,292,244**	**6,588,796**	**2,767,589**	**1,255,573**
Non-Cash Loans	11,359,828	**11,359,828**	6,993,322	598,232	820,728	1,699,003	1,168,428	80,115

31 December 2009	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
Deposits from banks	2,156,145	**2,165,104**	9,372	1,642,756	455,531	57,445	-	-
Deposits from customers	42,860,322	**43,103,962**	5,905,540	25,955,189	9,101,420	1,916,371	225,408	34
Obligations under repurchase agreements	6,145,352	**6,153,387**	-	732,903	3,889,087	1,408,969	122,428	-
Funds borrowed	4,696,610	**5,032,914**	-	231,973	164,162	1,539,408	1,666,851	1,430,520
Other financial liabilities	1,803,689	**1,803,689**	738,269	868,575	51,593	56,907	74,342	14,003
Total	**57,662,118**	**58,259,056**	**6,653,181**	**29,431,396**	**13,661,793**	**4,979,100**	**2,089,029**	**1,444,557**
Non-Cash Loans	9,120,833	**9,120,833**	4,778,410	53,817	154,574	1,291,543	2,633,322	209,167

The above table shows the undiscounted cash flows of the Group's financial liabilities on the basis of their earliest possible contractual maturity. The Group's expected cash flows on these instruments may vary significantly from this analysis.

(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 Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risk

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury Department, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Exposure to market risk – trading portfolios

The market risk arising from the trading portfolio is monitored, measured and reported using Standardised Approach according to the legal legislation. The monthly market risk report and the weekly currency risk reports prepared using Standardised Approach are reported to BRSA.

Value at Risk ("VaR") is also used to measure and control market risk exposure within the Bank's trading portfolios. The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Bank is based upon a 99 percent confidence level and assumes a 10-day holding period. The VaR model used is based on historical simulation and Monte Carlo simulation.

Average, highest and lowest values of consolidated market risks for the years ended 31 December 2010 and 2009, calculated as per the statutory consolidated 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:

	31 December 2010			**31 December 2009**		
	Average	**Highest**	**Lowest**	**Average**	**Highest**	**Lowest**
Interest rate risk	136,443	151,077	122,119	99,814	126,144	62,973
Common share risk	4,222	6,956	3,201	1,652	3,320	36
Currency risk	15,482	24,322	6,847	15,334	24,175	9,319
Option risk	510	1,259	144	7,022	15,950	2,594
Total value at risk	**1,958,216**	**2,113,213**	**1,853,063**	**1,547,779**	**2,118,538**	**937,688**

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(d) Market risk *(continued)*

Exposure to interest rate risk – non-trading portfolios

The principal risk to which non-trading 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 in its day-to-day monitoring activities. A summary of the Group's interest rate gap position on non-trading portfolios is as follows:

31 December 2010	**Less than one month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-interest bearing**	**Carrying amount**
Cash and cash equivalents	3,511,022	391,255	679	-	-	3,546,453	7,449,409
Loans and advances to banks	26,192	96,872	98,579	646	-	-	222,289
Loans and advances to customers	14,367,548	9,451,845	8,350,548	9,383,692	3,591,523	97,426	45,242,582
Investment securities	5,019,976	3,732,935	4,021,038	1,675,040	3,815,208	224,558	18,488,755
Other assets	3,804	1,300	8,500	111,894	239	3,127,682	3,253,419
Total assets	**22,928,542**	**13,674,207**	**12,479,344**	**11,171,272**	**7,406,970**	**6,996,119**	**74,656,454**
Deposits from banks	1,398,393	157,811	421,561	-	-	12,578	1,990,343
Deposits from customers	25,473,110	10,252,498	2,633,533	363,335	239	7,252,799	45,975,514
Obligations under repurchase agreements	5,824,706	1,238,335	1,150,591	-	-	-	8,213,632
Funds borrowed	206,412	4,864,935	1,399,137	250,093	14,200	13,429	6,748,206
Other liabilities and provisions	11,103	5,144	45,879	67,649	3,726	2,631,583	2,765,084
Total liabilities	**32,913,724**	**16,518,723**	**5,650,701**	**681,077**	**18,165**	**9,910,389**	**65,692,779**
Net	**(9,985,182)**	**(2,844,516)**	**6,828,643**	**10,490,195**	**7,388,805**	**(2,914,270)**	**8,963,675**

31 December 2009	**Less than one month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-interest bearing**	**Carrying amount**
Cash and cash equivalents	7,648,452	53,431	-	-	-	1,200,042	8,901,925
Loans and advances to banks	-	26,350	45,248	30,261	-	-	101,859
Loans and advances to customers	9,760,759	10,182,439	6,362,896	6,287,910	2,225,799	194,816	35,014,619
Investment securities	3,591,049	4,080,466	5,045,932	3,520,513	2,586,542	159,327	18,983,829
Other assets	12,104	20,944	90,788	158,495	20,403	1,992,777	2,295,511
Total assets	**21,012,364**	**14,363,630**	**11,544,864**	**9,997,179**	**4,832,744**	**3,546,962**	**65,297,743**
Deposits from banks	1,640,304	450,325	56,144	-	-	9,372	2,156,145
Deposits from customers	25,817,064	9,049,291	1,888,579	199,820	28	5,905,540	42,860,322
Obligations under repurchase agreements	732,737	3,934,522	1,403,218	74,875	-	-	6,145,352
Funds borrowed	272,403	3,643,238	733,488	26,924	3,682	16,875	4,696,610
Other liabilities and provisions	7,214	23,840	34,111	8,938	7,879	1,721,707	1,803,689
Total liabilities	**28,469,722**	**17,101,216**	**4,115,540**	**310,557**	**11,589**	**7,653,494**	**57,662,118**
Net	**(7,457,358)**	**(2,737,586)**	**7,429,324**	**9,686,622**	**4,821,155**	**(4,106,532)**	**7,635,625**

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(d) Market risk *(continued)*

The following table indicates the average effective interest rates applied to monetary financial instruments by major currencies for the year ended 31 December 2010 and 2009:

31 December 2010	US Dollar %	EUR %	TL %
Cash and cash equivalents	0.70 - 3.70	0.38 - 2.50	4.40 - 13.95
Loans and advances to banks	2.02 - 5.50	-	5.87 - 7.28
Loans and advances to customers	2.15 - 9.05	3.82 - 9.29	6.55 - 18.79
Investment securities	5.00 - 11.88	5.00 - 9.50	7.00 - 11.00
Deposits from banks	0.20 - 2.10	0.45 - 5.75	4.58 - 11.27
Deposits from customers	1.70 - 3.63	1.68 - 3.73	3.30 - 12.70
Obligations under repurchase agreements	0.69 - 1.87	0.50 - 1.98	4.37 - 16.22
Funds borrowed	0.45 - 4.53	0.70 - 2.26	4.42 - 10.18

31 December 2009	US Dollar %	EUR %	TL %
Cash and cash equivalents	0.34 - 3.57	0.27 - 1.25	5.2 - 11.62
Loans and advances to banks	0.90 - 7.10	1.97 - 5.85	9.25 - 10.25
Loans and advances to customers	2.14 - 5.79	3.82 - 6.96	14.94 - 16.66
Investment securities	6.68 - 8.71	1.67 - 7.42	9.82 - 11.93
Deposits from banks	0.15 - 3.50	0.45 - 3.50	4.25 - 10.75
Deposits from customers	1.67 - 3.07	1.98 - 3.89	3.75 - 14.00
Obligations under repurchase agreements	0.75 - 3.75	1.00	7.10 - 18.40
Funds borrowed	0.04 - 3.75	1.82 - 4.43	7.06 - 17.64

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(d) Market risk *(continued)*

Interest rate sensitivity

Interest rate sensitivity of profit or loss is the effect of the assumed changes in interest rates on the fair values of financial assets at fair value through profit or loss held as at 31 December 2010 and effect on net interest income of floating rate non-trading financial assets and financial liabilities held at 31 December 2010.

Interest rate sensitivity of the other comprehensive income is calculated by considering the effects of the assumed changes in interest rates on the fair values of fixed rate available-for-sale financial assets as at 31 December 2010.

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 2009.

	Profit or loss		Total comprehensive income	
31 December 2010	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
Financial assets at fair value through profit or loss	20,448	(19,586)	20,448	(19,586)
Available-for-sale financial assets	137	(138)	(206,959)	225,245
Floating rate financial assets	258,224	(258,224)	258,224	(258,224)
Floating rate financial liabilities	(64,739)	64,739	(64,739)	64,739
Total, net	**214,070**	**(213,209)**	**6,974**	**12,174**

	Profit or loss		Total comprehensive income	
31 December 2009	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
Financial assets at fair value through profit or loss	(7,742)	8,541	(7,742)	8,541
Available-for-sale financial assets	22,204	(22,287)	(191,672)	203,417
Floating rate financial assets	224,650	(224,650)	224,650	(224,650)
Floating rate financial liabilities	(59,307)	59,307	(59,307)	59,307
Total, net	**179,805**	**(179,089)**	**(34,071)**	**46,615**

Exposure to interest rate risk – non-trading portfolios

Credit spread risk (not relating to changes in the obligor/issuer's credit standing) on debt securities held by the Treasury Department and equity price risk is subject to regular monitoring by the Risk Management Department, but is not currently significant in relation to the overall results and financial position of the Group.

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(d) Market risk *(continued)*

Currency risk

The Group is exposed to currency risk through transactions in foreign currencies and through its investment in foreign operations.

Management of currency risk

Risk policy of the Group is based on keeping the transactions within defined limits and keeping the currency position well-balanced. The Group has established a foreign currency risk management policy that enables the Group to take a position between lower and upper limits which are determined, taking total equity of the Group into account.

31 December 2010	US Dollar	EUR	Other currencies	Total
Cash and cash equivalents	1,393,890	188,823	53,410	1,636,123
Financial assets at fair value through profit or loss	15,581	6,280	-	21,861
Loans and advances to banks	67,479	-	-	67,479
Loans and advances to customers	8,704,055	5,392,245	66,489	14,162,789
Investment securities	3,113,266	808,579	-	3,921,845
Other assets	670,816	879,336	879	1,551,031
Total foreign currency denominated monetary assets	**13,965,087**	**7,275,263**	**120,778**	**21,361,128**
Deposits from banks	510,094	149,048	15	659,157
Deposits from customers	7,959,110	3,688,441	43,735	11,691,286
Obligations under repurchase agreements	1,851,766	162,822	-	2,014,588
Funds borrowed	3,305,852	3,195,207	44,431	6,545,490
Other liabilities	511,646	145,022	23,805	680,473
Total foreign currency denominated monetary liabilities	**14,138,468**	**7,340,540**	**111,986**	**21,590,994**
Net statement of financial position	**(173,381)**	**(65,277)**	**8,792**	**(229,866)**
Net off balance sheet position	**126,228**	**47,978**	**(3,765)**	**170,441**
Net long/(short) position	**(47,153)**	**(17,299)**	**5,027**	**(59,425)**

31 December 2009	US Dollar	EUR	Other currencies	Total
Cash and cash equivalents	1,765,431	1,137,828	39,385	2,942,644
Financial assets at fair value through profit or loss	37,061	4,058	-	41,119
Loans and advances to banks	27,432	-	385	27,817
Loans and advances to customers	7,052,052	3,993,809	63,310	11,109,171
Investment securities	2,814,534	834,463	-	3,648,997
Other assets	950,552	123,958	215	1,074,725
Total foreign currency denominated monetary assets	**12,647,062**	**6,094,116**	**103,295**	**18,844,473**
Deposits from banks	348,016	72,260	61	420,337
Deposits from customers	8,337,742	4,077,546	42,154	12,457,442
Obligations under repurchase agreements	1,418,815	83,909	-	1,502,724
Funds borrowed	2,446,561	1,975,237	45,705	4,467,503
Other liabilities	155,962	131,822	2,710	290,494
Total foreign currency denominated monetary liabilities	**12,707,096**	**6,340,774**	**90,630**	**19,138,500**
Net statement of financial position	**(60,034)**	**(246,658)**	**12,665**	**(294,027)**
Net off balance sheet position	**208,333**	**245,998**	**(3,030)**	**451,301**
Net long/(short) position	**148,299**	**(660)**	**9,635**	**157,274**

For the purposes of the evaluation of the table above, the figures represent the TL equivalent of the related foreign currencies.

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(d) Market risk *(continued)*

Exposure to currency risk

10 percent devaluation of the TL against the following currencies as at and for the years ended 31 December 2010 and 2009 would affect consolidated total comprehensive income and profit or loss (without tax effects) by the amounts shown below.

	31 December 2010		31 December 2009	
	Profit or loss	**Total comprehensive income**	**Profit or loss**	**Total comprehensive income**
US Dollar	(33,360)	(16,904)	5,679	13,599
EUR	(3,755)	13,837	2,610	4,539
Other currencies	424	424	964	964
Total, net	**(36,691)**	**(2,643)**	**9,253**	**19,102**

10 percent revaluation of the TL against the following currencies as at and for the year ended 31 December 2010 and 2009 would affect consolidated total comprehensive income and profit or loss (without tax effects) by the amounts shown below.

	31 December 2010		31 December 2009	
	Profit or loss	**Total comprehensive income**	**Profit or loss**	**Total comprehensive income**
US Dollar	(4,195)	20,651	(1,560)	(9,480)
EUR	(295)	(13,837)	(2,462)	(4,391)
Other currencies	330	330	(206)	(206)
Total, net	**(4,160)**	**7,144**	**(4,228)**	**(14,077)**

This analysis assumes that all other variables, in particular interest rates, remain constant.

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of the changes in the levels of equity indices and the value of individual stocks.

The effect on other comprehensive income of the Group as a result of changes in the fair value of equity instruments held as available-for-sale financial assets and equity participations at 31 December 2010 and 2009 due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Change in index	**31 December 2010**	**31 December 2009**
ISE – 100 (IMKB100)	10%	14,665	5,469

4. Financial risk management *(continued)*

(d) Market risk *(continued)*

Fair value information

The estimated fair values of financial instruments have been determined using available market information by the Group, and where it exists, appropriate valuation methodologies. However, judgment is necessary to interpret market data to determine the estimated fair value. Turkey has shown signs of an emerging market and has experienced a significant decline in the volume of activity in its financial market. While management has used available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

Management has estimated that the fair value of certain financial assets and liabilities recorded at amortised cost are not materially different than their recorded values except for those of loans and advances to customers and investment securities. These financial assets and liabilities include loans and advances to banks, obligations under repurchase agreements, loans and advances from banks, and other short-term assets and liabilities that are of a contractual nature. Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair values, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions.

Fair value of performing loans and advances to customers is TL 45,217,579 (31 December 2009: TL 34,818,219), whereas the carrying amount is TL 45,145,156 (31 December 2009: TL 34,819,803) in the accompanying consolidated statement of financial position as at 31 December 2010.

Fair value of held-to-maturity investment securities is TL 4,622,936 (31 December 2009: TL 3,783,271), whereas the carrying amount is TL 4,362,245 (31 December 2009: TL 3,578,218) in the accompanying consolidated statement of financial position as at 31 December 2010.

Classification of fair value measurement

IFRS 7 – *Financial Instruments: Disclosures* requires the measurements of fair value of financial instruments to be classified in a hierarchy that reflects the significance of the valuation inputs used. This classification prioritises observable data, using market data obtained from independent sources, in preference to unobservable data that relies, for example on the use of predictions and assumptions about market prices by the Group. This sort of categorization generally results in the classifications below:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: Fair value measurements using inputs for the assets or liability that are not based on observable market data (i.e. unobservable inputs).

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(d) Market risk *(continued)*

The classification of fair value measurements of financial assets and liabilities measured at fair value is as follows:

31 December 2010	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
Debt securities	176,484	15,521	-	**192,005**
Derivative financial assets held for trading purpose	-	24,994	-	**24,994**
Investment funds	-	1,031	-	**1,031**
Equity securities	52	-	27	**79**
Investment securities				
Debt securities	13,679,072	222,880	-	**13,901,952**
Equity securities	158,296	-	31,401	**189,697**
Total financial assets	**14,013,904**	**264,426**	**31,428**	**14,309,758**
Financial liabilities held for trading purpose				
Derivative financial liabilities held for trading purpose	-	(103,367)	-	**(103,367)**
Total financial liabilities	**-**	**(103,367)**	**-**	**(103,367)**

31 December 2009	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
Debt securities	100,539	15,984	-	**116,523**
Derivative financial assets held for trading purpose	-	21,524	-	**21,524**
Investment funds	-	2,829	-	**2,829**
Equity securities	382	-	-	**382**
Investment securities				
Debt securities	14,850,870	395,414	-	**15,246,284**
Equity securities	91,904	-	28,567	**120,471**
Total financial assets	**15,043,695**	**435,751**	**28,567**	**15,508,013**
Financial liabilities held for trading purpose				
Derivative financial liabilities held for trading purpose	-	(42,547)	-	**(42,547)**
Total financial liabilities	**-**	**(42,547)**	**-**	**(42,547)**

The reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy as at and for the year ended 31 December 2010 is as follows:

	Level 3 Balance
Balance at the beginning of the period	28,567
Total gains or losses for the period recognised in profit or loss	-
Total gains or losses for the period recognised in other comprehensive income	2,861
Balance at the end of the period	**31,428**

4. Financial risk management *(continued)*

(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 as a 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 framework, an appropriate monitoring methodology is developed for each control area that covers all operational risks and control frequencies are determined.

The data of operational losses may be exposed to during the Bank's activities is collected and analyzed regularly by Risk Management Department and reported to Board of Directors, Audit Committee and senior management.

The Group calculated the value of operational risk in accordance with the fourth section regarding 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 June 2007, using gross profit of the last three years 2009, 2008 and 2007. The amount, calculated as TL 541,309 as at 31 December 2010 (31 December 2009: TL 448,797) represents the operational risk that the Bank may be exposed to and the amount of minimum capital requirement to eliminate this risk. Value of operational risk amounted to TL 6,766,363 (31 December 2009: TL 5,609,963) and is calculated as 12.5 times the operational risk.

(f) Capital management – regulatory capital

BRSA, the regulatory 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 a minimum of 8% of total capital to total risk-weighted assets. BRSA regulation requires the calculation of the capital adequacy ratio based on the consolidated financial statements of the Bank and its financial subsidiaries.

The Bank and its financial subsidiaries' consolidated regulatory capital is analysed into two tiers:

- Tier 1 capital, is composed of share capital, legal, statutory, other profit and extraordinary reserves, retained earnings, translation reserve and non-controlling interests after deduction of goodwill, prepaid expenses and other certain costs.
- Tier 2 capital, is composed of the total amount of general provisions for loans, restricted funds, fair value reserves of available-for-sale financial assets and equity investments, subordinated loans received and free reserves set aside for contingencies.

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 requirements and market risk capital requirements as at 31 December 2010 and 2009 are calculated using the 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 year and the previous year.

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(f) Capital management – regulatory capital

The Bank's and its subsidiaries' regulatory capital position on a consolidated basis at 31 December 2010 and 2009 was as follows:

	31 December 2010	**31 December 2009**
Tier 1 capital	7,843,443	6,822,116
Tier 2 capital	582,602	490,363
Deductions from capital	(275,547)	(284,016)
Total regulatory capital	8,150,498	7,028,463
Risk-weighted assets	49,842,490	38,684,473
Value at market risk	1,853,063	1,914,000
Operational risk	6,766,363	5,609,963
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	13.94	15.21
Total tier 1 capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	13.42	14.76

5 Insurance risk management

The risk under any insurance contract is the possibility that the insured event occurs and the amount of the resulting claim is uncertain. By the very nature of an insurance contact, the risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of the probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claim and benefit payments exceed carrying amount of the insured liabilities. These could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is likely to be affected across the board by a change in any subset of portfolio.

The Group has developed its life and non-life insurance underwriting strategies to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Pricing policies

The pricing policies and principles of the Group are as follows:

i) While determining risk premiums, the amount of expected losses are considered and premium limits are determined accordingly.
ii) During the study of pricing activities as a part of developing a new product, working of relevant units together within the Group is maintained by considering the needs of the customers and competition in the market.
iii) It is aimed to achieve profitability in product basis and providing continuity.

Results of the pricing studies are compared with the prices of the competitors and international pricing cases.

Management of risks

The Group manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing, product design and management of reinsurance.

The Group underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years which reduces the variability of the outcome. All non-life contracts are annual in nature and the underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal.

Concentration of insurance risk

A key aspect of the insurance risk faced by the Group is the extent of concentration of insurance risk, which determines the extent to which a particular event or series of events could impact significantly upon the Group's liabilities. Such concentrations may arise from a single insurance contract or through a number of related contracts where significant liabilities could arise. An important aspect of the concentration of insurance risk is that it could arise from the accumulation of risks within a number of different insurance classes.

Concentrations of risk can arise in low frequency, high-severity events such as natural disasters; in situations where the Group is exposed to unexpected changes in trends, for example, unexpected changes in human mortality or in policyholder behaviour; or where significant litigation or legislative risks could cause a large single loss, or have a pervasive effect on many contracts.

5 Insurance risk management *(continued)*

Concentration of insurance risk *(continued)*

Within non-life insurance, the management believes that the Group has no significant concentration of exposure to any group of policyholders measured by social, professional, age or similar criteria.

The greatest likelihood of significant losses to the Group arises from catastrophe events, such as flood, damage, storm or earthquake damage. The techniques and assumptions that the Group uses to calculate theses risks are as follows:

- Measurement of geographical accumulations.
- Assessment of probable maximum losses.
- Excess of loss reinsurance.

Reinsurance

The Group reinsures a portion of the risks it underwrites in order to control its exposure to losses and protect capital resources.

Reinsurance companies, providing reinsurance protection against life insurance and other additional risks are the most important service providers for the insurance subsidiaries of the Group. The decisive criteria for the relationship with reinsurers are as follows:

i) Financial strength,

ii) Long-term relationship approach,

iii) Competitive prices

iv) Capacity provided for facultative and un-proportional (catastrophic) reinsurance contracts.

v) Opportunities and information provided in risk assessment process, product development, trainings, information about new developments in the sector and etc.

Performance of the reinsurance companies in treaty agreements is evaluated for each year by considering the payment performance of the reinsurers for the claims paid and other due payables to the insurance subsidiaries of the Group. Performance of the reinsurance companies in facultative agreements is evaluated by considering capacity provided to the insurance subsidiaries of the Group, speed in operational reinsurance transactions, and technical and market information provided to the insurance subsidiaries of the Group. In cases where the performance of the reinsurer is not seen as adequate, the insurance subsidiaries of the Group will decide to contract with alternative reinsurance companies.

6. Segment reporting

Operating segments

The Group has six reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting structure. For each of the strategic business units, the Board of Directors reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

Retail banking

Includes loans, deposits and other transactions and balances with retail customers.

Corporate and commercial banking

Includes loans, deposits and other transactions and balances with corporate customers.

Investment banking

Includes the Group's trading and corporate finance activities.

This segment undertakes the Group's funding and centralized risk management activities through borrowings, issues of debt securities and investing in liquid assets such as short-term placements and corporate and government debt securities.

Insurance

Includes the Group's insurance business.

Leasing

Includes the Group's finance lease business.

Factoring

Includes the Group's factoring business.

Others

Includes combined information about operating segments that do not meet the quantitative thresholds.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Board of Directors. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

Measurement of segment assets and liabilities and operating segment results is based on the accounting policies set out in the accounting policy notes.

(Currency – Thousands of Turkish Lira (TL))

6. Segment reporting *(continued)*

Information about operating segments

31 December 2010	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Operating profit	**775,344**	**198,555**	**1,021,528**	**(360,298)**	**1,635,129**	**(55,912)**	**17,217**	**15,751**	**13,872**	**1,626,057**	**(9,111)**	**1,616,946**
Profit before income tax	775,344	198,555	1,021,528	(360,298)	**1,635,129**	(55,912)	17,217	15,751	13,872	**1,626,057**	(9,111)	**1,616,946**
Income tax expense	(145,902)	(37,364)	(192,229)	67,837	**(307,658)**	(5,253)	225	(3,086)	(1,458)	**(317,230)**	(2,671)	**(319,901)**
Profit for the year	**629,442**	**161,191**	**829,299**	**(292,461)**	**1,327,471**	**(61,165)**	**17,442**	**12,665**	**12,414**	**1,308,827**	**(11,782)**	**1,297,045**

31 December 2010	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Segment assets	14,914,095	30,475,023	24,747,490	4,277,130	**74,413,738**	2,144,289	573,028	816,849	435,344	**78,383,248**	(1,538,541)	**76,844,707**
Investments in associates and subsidiaries	-	-	692,888	-	**692,888**	124,619	2,561	6,160	16,312	**842,540**	(830,252)	**12,288**
Total assets	**14,914,095**	**30,475,023**	**25,440,378**	**4,277,130**	**75,106,626**	**2,268,908**	**575,589**	**823,009**	**451,656**	**79,225,788**	**(2,368,793)**	**76,856,995**
Segment liabilities	17,187,779	31,309,326	14,769,455	2,591,953	**65,858,513**	1,991,452	489,462	748,405	87,997	**69,175,829**	(1,549,909)	**67,625,920**
Equity including non-controlling interest	-	-	-	9,248,113	**9,248,113**	277,456	86,127	74,604	363,659	**10,049,959**	(818,884)	**9,231,075**
Total liabilities and equity	**17,187,779**	**31,309,326**	**14,769,455**	**11,840,066**	**75,106,626**	**2,268,908**	**575,589**	**823,009**	**451,656**	**79,225,788**	**(2,368,793)**	**76,856,995**

(Currency – Thousands of Turkish Lira (TL))

6. Segment reporting *(continued)*

Information about operating segments *(continued)*

31 December 2009	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Operating profit	**321,058**	**301,465**	**906,390**	**52,947**	**1,581,860**	**(16,541)**	**(1,259)**	**17,321**	**20,160**	**1,601,541**	**(4,061)**	**1,597,480**
Profit before income tax	321,058	301,465	906,390	52,947	**1,581,860**	(16,541)	(1,259)	17,321	20,160	**1,601,541**	(4,061)	**1,597,480**
Income tax expense	(59,063)	(55,459)	(166,743)	(9,740)	**(291,005)**	3,308	27,800	(3,444)	(4,032)	**(267,373)**	-	**(267,373)**
Profit for the year	**261,995**	**246,006**	**739,647**	**43,207**	**1,290,855**	**(13,233)**	**26,541**	**13,877**	**16,128**	**1,334,168**	**(4,061)**	**1,330,107**

31 December 2009	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Segment assets	10,248,460	27,205,076	25,522,378	2,264,781	**65,240,695**	1,918,777	343,997	566,612	444,553	**68,514,634**	(1,190,875)	**67,323,759**
Investments in associates and subsidiaries	-	-	559,836	-	**559,836**	94,555	2,245	6,160	9,922	**672,718**	(662,064)	**10,654**
Total assets	**10,248,460**	**27,205,076**	**26,082,214**	**2,264,781**	**65,800,531**	**2,013,332**	**346,242**	**572,772**	**454,475**	**69,187,352**	**(1,852,939)**	**67,334,413**
Segment liabilities	13,922,149	31,578,544	10,683,545	1,769,604	**57,953,842**	1,684,650	277,867	505,086	92,306	**60,513,751**	(1,203,751)	**59,310,000**
Equity including non-controlling interest	-	-	-	7,846,689	**7,846,689**	328,682	68,375	67,686	362,169	**8,673,601**	(649,188)	**8,024,413**
Total liabilities and equity	**13,922,149**	**31,578,544**	**10,683,545**	**9,616,293**	**65,800,531**	**2,013,332**	**346,242**	**572,772**	**454,475**	**69,187,352**	**(1,852,939)**	**67,334,413**

(Currency – Thousands of Turkish Lira (TL))

7. Cash and cash equivalents

As at 31 December 2010 and 2009, cash and cash equivalents as presented in the consolidated statement of financial position and cash flows are as follows:

	31 December 2010	31 December 2009
Cash on hand	659,536	594,819
Balances with the Central Bank excluding reserve deposits	2,564,379	1,585,067
Receivables from repurchase agreements *(Note 9)*	2,101,584	-
Loans and advances to banks with original maturity less than three months	2,119,049	6,721,304
Others	4,861	735
Total cash and cash equivalents in the consolidated statement of financial position	**7,449,409**	**8,901,925**
Accruals on cash and cash equivalents	(13,877)	(24,130)
Blocked bank deposits	(292,054)	(103,501)
Total cash and cash equivalents in the consolidated statement of cash flows	**7,143,478**	**8,774,294**

As at 31 December 2010, loans and advances to banks include blocked accounts of TL 292,054 (31 December 2009: TL 103,501) held against the "Diversified Payment Rights" securitizations and insurance liabilities of the Group in favour of the Turkish Treasury.

As at 31 December 2010, blocked loans and advances to banks includes credit card receivables of insurance subsidiaries blocked by the banks for 28 days amounted to TL 6,013 (31 December 2009: 19,200) which is presented as cash in the consolidated statement of cash flows, since these amounts are convertible to cash if required.

8. Financial assets at fair value through profit or loss

As at 31 December 2010 and 2009, financial assets at fair value through profit or loss are as follows:

	31 December 2010		31 December 2009	
	Face Value	Carrying Value	Face Value	Carrying Value
Debt instruments held at fair value:				
Government bonds in TL	157,618	170,279	93,292	95,265
Eurobonds issued by the Turkish Government	8,794	12,490	13,728	21,258
Treasury bills in TL	6,600	6,521	-	-
Corporate bonds in TL	2,580	2,715	-	-
		192,005		**116,523**
Equity and other non-fixed income instruments:				
Derivative financial instruments held for trading purposes		24,994		21,524
Investment funds		1,031		2,829
Equity shares		79		382
		26,104		**24,735**
Total financial assets at fair value through profit or loss		**218,109**		**141,258**

Income from debt instruments held at fair value is reflected in the consolidated statement of comprehensive income as interest on securities. Gains and losses arising on derivative financial instruments held for trading purposes and changes in fair value of other equity and non-fixed income instruments are reflected in net trading income. As at and for the year ended 31 December 2010, net income from trading of financial assets amounting to TL 295,992 (31 December 2009: TL 149,541) is included in "trading income, (net)".

(Currency – Thousands of Turkish Lira (TL))

8. Financial assets at fair value through profit or loss *(continued)*

The following table summarizes securities that were deposited as collateral with respect to various banking transactions:

	31 December 2010		**31 December 2009**	
	Face Value	**Carrying Value**	**Face Value**	**Carrying Value**
Deposited at Turkish Treasury for insurance operations	121,326	136,694	-	-
Deposited at Istanbul Stock Exchange for repurchase transactions	2,747	2,533	2,117	2,080
Deposited at Istanbul Stock Exchange for Capital Markets Board certifications	100	97	100	97
		139,324		**2,177**

Derivative financial instruments held for trading purposes

A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlyings, such as financial instrument prices, reference rates, commodity prices or indices. In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. Derivative financial instruments used include currency forwards, interest rate swaps, currency options and credit default swaps.

The table below shows the contractual amounts of derivative instruments analyzed by the term to maturity. The contractual 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 contractual amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

The fair value of derivative financial instruments is calculated by using forward exchange rates at the reporting date. In the absence of reliable forward rate estimations in a volatile market, current market rate is considered to be the best estimate of the present value of the forward exchange rates.

(Currency – Thousands of Turkish Lira (TL))

8. Financial assets at fair value through profit or loss *(continued)*

Derivative financial instruments held for trading purposes *(continued)*

	31 December 2010					
	Up to 1 month	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Currency swaps:						
Purchases	1,469,388	427,978	465,105	-	-	**2,362,471**
Sales	1,457,371	423,412	463,500	-	-	**2,344,283**
Currency forwards:						
Purchases	33,796	17,447	1,199	-	-	**52,442**
Sales	33,787	17,443	1,199	-	-	**52,429**
Cross currency interest rate swaps:						
Purchases	-	-	-	729,658	-	**729,658**
Sales	-	-	-	720,569	-	**720,569**
Interest rate swaps:						
Purchases	-	731	127,538	30,223	115,875	**274,367**
Sales	-	731	124,600	20,331	115,875	**261,537**
Currency options:						
Purchases	86,554	41,291	-	-	-	**127,845**
Sales	86,555	41,291	-	-	-	**127,846**
Security options:						
Purchases	-	-	-	-	2	**2**
Sales	-	-	-	-	-	**-**
Total of purchases	**1,589,738**	**487,447**	**593,842**	**759,881**	**115,877**	**3,546,785**
Total of sales	**1,577,713**	**482,877**	**589,299**	**740,900**	**115,875**	**3,506,664**
Total of transactions	**3,167,451**	**970,324**	**1,183,141**	**1,500,781**	**231,752**	**7,053,449**

	31 December 2009					
	Up to 1 month	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
Currency swaps:						
Purchases	766,057	38,432	-	-	-	**804,489**
Sales	771,379	39,307	-	-	-	**810,686**
Currency forwards:						
Purchases	32,719	51,323	47,897	-	-	**131,939**
Sales	32,713	51,313	47,866	-	-	**131,892**
Cross currency interest rate swaps:						
Purchases	-	-	8,924	291,350	60,959	**361,233**
Sales	-	-	7,774	288,330	68,838	**364,942**
Interest rate swaps:						
Purchases	-	-	-	58,116	-	**58,116**
Sales	-	-	-	45,946	-	**45,946**
Currency options:						
Purchases	160,602	43,631	-	-	-	**204,233**
Sales	160,722	43,512	-	-	-	**204,234**
Security options:						
Purchases	-	-	-	-	2	**2**
Sales	-	-	-	-	-	**-**
Others:						
Purchases	-	14,900	-	-	-	**14,900**
Sales	-	-	-	-	-	**-**
Total of purchases	**959,378**	**148,286**	**56,821**	**349,466**	**60,961**	**1,574,912**
Total of sales	**964,814**	**134,132**	**55,640**	**334,276**	**68,838**	**1,557,700**
Total of transactions	**1,924,192**	**282,418**	**112,461**	**683,742**	**129,799**	**3,132,612**

(Currency – Thousands of Turkish Lira (TL))

9. Repurchase agreements

The Group lends its extra fund as a result of daily operations to other financial institutions through repurchase agreements. Assets purchased under repurchase agreements comprise the following:

	31 December 2010		31 December 2009	
	Fair value of underlying assets	**Carrying Value of corresponding assets**	**Fair value of underlying assets**	**Carrying Value of corresponding assets**
Reverse repurchase agreements	2,180,920	2,101,584	-	-
	2,180,920	**2,101,584**	**-**	**-**

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates. Assets sold under repurchase agreements comprise the following:

	31 December 2010		31 December 2009	
	Fair value of underlying assets	**Carrying Value of corresponding liabilities**	**Fair value of underlying assets**	**Carrying Value of corresponding liabilities**
Financial assets at fair value through profit or loss	2,533	2,491	2,080	1,970
Investment securities	6,614,170	6,092,534	6,801,397	6,143,382
Held to maturity portfolio	2,378,338	2,118,607	-	-
	8,995,041	**8,213,632**	**6,803,477**	**6,145,352**

Accrued interest on obligations under repurchase agreements amounted to TL 26,025 (31 December 2009: TL 127,054) and is included in the carrying amount of corresponding liabilities.

In general, the fair values of such assets are more than the corresponding liabilities due to the margins set between parties, since such funding is raised against assets collateralized.

10. Loans and advances to banks

Loans and advances to banks comprise balances with more than three months maturity from the date of acquisition and are as follows as at 31 December 2010 and 2009:

	31 December 2010			31 December 2009		
	TL	**FC**	**Total**	**TL**	**FC**	**Total**
Domestic banks	109	117,305	117,414	-	42,170	42,170
Foreign banks	2	104,873	104,875	548	59,141	59,689
Total	**111**	**222,178**	**222,289**	**548**	**101,311**	**101,859**

Loans and advances to banks with more than three months maturity from the date of acquisition does not include blocked accounts as at 31 December 2010 and 2009.

(Currency – Thousands of Turkish Lira (TL))

11. Loans and advances to customers

As at 31 December 2010 and 2009, outstanding loans and advances to customers comprise the followings:

	31 December 2010	31 December 2009
Corporate loans	26,764,770	22,249,810
Consumer loans	13,511,159	9,202,303
Loans to financial institutions	2,666,091	1,004,298
Credit cards	1,436,783	1,766,996
Total performing loans	**44,378,803**	**34,223,407**
Non-performing loans	2,364,653	2,294,379
Total gross loans	**46,743,456**	**36,517,786**
Finance lease receivables, net of unearned income *(Note 12)*	357,903	308,027
Factoring receivables	471,539	360,081
Allowance for possible loan losses from loans and receivables, finance lease receivables, and factoring receivables *(Note 4)*	(2,330,316)	(2,171,275)
Loans and advances to customers, net	**45,242,582**	**35,014,619**

The specific allowance for possible losses is comprised of amounts for specifically identified as being impaired and non-performing loans and advances.

Movements in the allowance for possible loan losses:

	31 December 2010	31 December 2009
Reserve at the beginning of the year	2,171,275	1,511,749
Adjustment for currency translation	(26)	(1,155)
Reserve for possible loan losses provided during the year	809,371	1,115,888
Recoveries	(584,148)	(454,623)
Provision, net of recoveries	2,396,472	2,171,859
Loans written off during the year	(66,156)	(584)
Reserve at the end of the year	**2,330,316**	**2,171,275**

12. Finance lease receivables

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

The receivables are secured by way of the underlying assets. Minimum lease receivables from customers include the following finance lease receivables:

	31 December 2010	31 December 2009
Finance lease receivables, net of unearned incomes	300,980	242,588
Add: non-performing lease receivables	56,923	65,439
Total finance lease receivables *(Note 11)*	357,903	308,027
Less: allowance for possible losses on lease receivables	(56,923)	(65,439)
Finance lease receivables, net	**300,980**	**242,588**

(Currency – Thousands of Turkish Lira (TL))

12. Finance lease receivables *(continued)*

	31 December 2010	31 December 2009
Due within one year	37,066	93,221
Due between 1 and 5 years	301,711	192,168
More than five years	46	-
Finance lease receivables, gross	338,823	285,389
Unearned income	(37,843)	(42,801)
Finance lease receivables, net	**300,980**	**242,588**
Due within one year	36,058	76,640
Due between 1 and 5 years	264,882	165,948
More than five years	40	-
Finance lease receivables, net	**300,980**	**242,588**

13. Investment securities

As at 31 December 2010 and 2009, investment securities comprised the following:

	31 December 2010	31 December 2009
Available-for-sale financial assets	14,126,510	15,405,611
Held-to-maturity investment securities	4,362,245	3,578,218
Total investment securities	**18,488,755**	**18,983,829**

Available-for-sale financial assets:

	31 December 2010		31 December 2009	
	Face Value	Carrying Value	Face Value	Carrying Value
Debt and other instruments available-for-sale:				
Government bonds in TL	10,235,383	10,850,438	12,236,845	12,035,452
Eurobonds issued by the Turkish Government	2,038,679	2,340,293	1,527,444	1,739,456
Treasury bills in TL	421,530	407,571	960,075	936,624
Government bonds in foreign currencies	190,585	193,852	461,380	473,873
Bonds issued by foreign banks	93,667	96,839	44,945	45,783
Corporate bonds	13,387	12,959	17,198	15,096
		13,901,952		**15,246,284**
Equity and other non-fixed income instruments:				
Equity shares		224,558		159,327
		224,558		**159,327**
Total available-for-sale financial assets		**14,126,510**		**15,405,611**

(Currency – Thousands of Turkish Lira (TL))

13. Investment securities *(continued)*

The following table summarizes available-for-sale financial assets that were deposited as collaterals with respect to various banking transactions:

	31 December 2010		31 December 2009	
	Face Value	Carrying Value	Face Value	Carrying Value
Deposited at Central Bank of Turkey for repurchase transactions	4,781,164	5,012,629	3,326,823	3,404,641
Deposited at financial institutions for repurchase transactions	1,377,292	1,589,215	1,467,033	1,582,110
Deposited at Central Bank of Turkey for foreign currency money market transactions	1,148,860	1,402,440	1,687,870	1,781,129
Deposited at Central Bank of Turkey for interbank transactions	270,000	257,391	950,525	1,000,449
Deposited at Istanbul Stock Exchange for the transaction of financial instruments	66,500	69,228	372,500	413,181
Deposited at Turkish Treasury for insurance operations	-	-	227,193	230,001
Deposited at Turkish Derivative Exchange	-	-	37	34
		8,330,903		**8,411,545**

Held-to-maturity investment securities:

	31 December 2010			31 December 2009		
	Face Value	Carrying Value	Fair Value	Face Value	Carrying Value	Fair Value
Debt instruments:						
Government bonds in TL	2,831,621	2,911,012	2,962,381	2,662,143	2,075,831	2,152,728
Eurobonds issued by the Turkish Government	1,329,116	1,401,260	1,610,523	1,357,710	1,440,154	1,567,574
Certificate of deposits	37,080	37,092	37,092	35,760	35,766	35,766
Government bonds in foreign currencies	10,352	10,805	10,866	14,958	15,557	16,168
Bonds issued by foreign banks	2,070	2,076	2,074	10,684	10,910	11,035
Total held-to-maturity investment securities		**4,362,245**	**4,622,936**		**3,578,218**	**3,783,271**

The Bank reclassified certain investment securities that were previously classified in available-for-sale portfolio with total face value of TL 2,205,476 to its held-to-maturity investment securities portfolio at their fair values of TL 2,166,451 as at their reclassification dates in the current year. The value increases of such securities amounting to TL 4,842 are recorded under equity and will be amortized through the statement of income until their maturities.

Additionally, the Bank reclassified certain investment securities that were previously classified in available-for-sale portfolio with total face value of TL 675,000 to its held-to-maturity investment securities portfolio at their fair values of TL 610,161 as at their reclassification dates, in 2009. The value increases of such securities amounting to TL 1,118 are recorded under equity and will be amortized through the statement of income until their maturities.

(Currency – Thousands of Turkish Lira (TL))

13. Investment securities *(continued)*

The following table summarizes held-to-maturity investment securities that were deposited as collaterals with respect to various banking transactions:

	31 December 2010		31 December 2009	
	Face Value	Carrying Value	Face Value	Carrying Value
Deposited at foreign financial institutions for repurchase transactions	2,200,453	2,263,929	1,676,651	1,702,803
Deposited at Istanbul Stock Exchange for the transaction of financial instruments	354,475	377,567	-	-
Deposited at Central Bank of Turkey for interbank transactions	25,000	25,999	572,975	599,394
Deposited at Turkish Derivative Exchange	1,287	1,258	-	-
Deposited at Central Bank of Turkey for foreign currency money market transactions	200	207	100,500	94,992
Others	37,080	37,092	35,760	35,766
		2,706,052		**2,432,955**

14. Investment in equity participations accounted for using the equity method

As at 31 December 2010 and 2009 investments in equity participations accounted for using the equity method are as follows:

	31 December 2010	31 December 2009
Unquoted investments:		
Kıbrıs Vakıflar Bankası Ltd.	8,912	7,536
Quoted investments:		
Vakıf Menkul Kıymetler Yatırım Ortaklığı AŞ	3,376	3,118
	12,288	**10,654**

15. Property and equipment and intangible assets

Movements in property and equipment and intangible assets from 1 January to 31 December 2010 and 1 January to 31 December 2009 are as follows:

Property and equipment	1 January 2010	Currency translation difference	Additions	Disposals	31 December 2010
Cost:					
Land and buildings	908,561	94	5,903	(36,832)	877,726
Motor vehicles	32,699	1	2,757	(1,240)	34,217
Furniture, office equipment and leasehold improvements	597,767	50	65,147	(4,466)	658,498
Other tangibles	37,314	-	23,035	(2,406)	57,943
	1,576,341	**145**	**96,842**	**(44,944)**	**1,628,384**
Accumulated depreciation:					
Land and buildings	205,838	69	25,089	(4,545)	226,451
Motor vehicles	30,842	1	4,149	(1,105)	33,887
Furniture, office equipment and leasehold improvements	439,211	37	33,292	(3,286)	469,254
Other tangibles	29,535	-	41,303	(2,344)	68,494
	705,426	**107**	**103,833**	**(11,280)**	**798,086**
Net book value	**870,915**				**830,298**

(Currency – Thousands of Turkish Lira (TL))

15. Property and equipment and intangible assets *(continued)*

Intangible assets	**1 January 2010**	**Currency translation difference**	**Additions**	**Disposals**	**31 December 2010**
Cost:					
Software programmes	66,473	55	18,328	17	84,873
	66,473	**55**	**18,328**	**17**	**84,873**
Accumulated amortisation:					
Software programmes	18,756	36	8,477	11	27,280
	18,756	**36**	**8,477**	**11**	**27,280**
Net book value	**47,717**				**57,593**

Property and equipment	**1 January 2009**	**Currency translation difference**	**Additions**	**Disposals**	**31 December 2009**
Cost:					
Land and buildings	901,792	19	12,383	(5,633)	908,561
Motor vehicles	32,309	-	5,596	(5,206)	32,699
Furniture, office equipment and leasehold improvements	535,867	10	65,218	(3,328)	597,767
Other tangibles	38,061	-	829	(1,576)	37,314
	1,508,029	**29**	**84,026**	**(15,743)**	**1,576,341**
Accumulated depreciation:					
Land and buildings	180,882	14	26,122	(1,180)	205,838
Motor vehicles	31,188	-	4,201	(4,547)	30,842
Furniture, office equipment and leasehold improvements	383,737	7	56,933	(1,466)	439,211
Other tangibles	7,113	-	23,168	(746)	29,535
	602,920	**21**	**110,424**	**(7,939)**	**705,426**
Net book value	**905,109**				**870,915**

Intangible assets	**1 January 2009**	**Currency translation difference**	**Additions**	**Disposals**	**31 December 2009**
Cost:					
Software programmes	46,054	5	22,571	(2,157)	66,473
	46,054	**5**	**22,571**	**(2,157)**	**66,473**
Accumulated amortisation:					
Software programmes	12,536	4	6,234	(18)	18,756
	12,536	**4**	**6,234**	**(18)**	**18,756**
Net book value	**33,518**				**47,717**

There are no restrictions such as pledges, mortgages or any other restriction on the property and equipment.

(Currency – Thousands of Turkish Lira (TL))

16. Other assets

	31 December 2010	31 December 2009
Reserve deposit at Central Bank of Turkey	1,423,140	872,785
Individual pension system receivables	701,303	526,802
Assets held for resale	509,779	470,138
Receivables from reinsurance activities	371,213	311,799
Prepaid expenses	326,560	256,855
Receivables from credit card payments	292,504	113,010
Receivables from insurance activities	256,240	262,930
Receivables from term sales of fixed assets	87,974	125,323
Deferred acquisition costs for insurance contracts, gross	65,016	63,863
Investment properties	54,163	55,452
Receivables from derivative financial instruments	37,763	56,006
Miscellaneous receivables	24,131	11,626
Prepaid taxes other than income tax and funds to be refunded	11,838	15,266
Prepaid income taxes	-	2,614
Others	64,657	15,230
Total other assets	**4,226,281**	**3,159,699**

At 31 December 2010, reserve deposits at the Central Bank of Turkey ("CBT") were kept under the minimum reserve requirement. These funds are not available for the daily operations of the Group. As required by Turkish Banking Law, these reserve deposits are calculated on the basis of domestic liabilities of the Bank after some deductions, at the rates determined by the CBT.

In accordance with the current legislation, the reserve deposit rates for TL and foreign currency deposits as at 31 December 2010 are 6% (31 December 2009: 5%) and 11% (31 December 2009: 9%), respectively. These reserve deposit rates are applicable to both time and demand saving deposits. As at 31 December 2010, the interest rate given by CBT for TL and foreign currency reserve deposits are nil. (31 December 2009:TL 5.2%, FC nil).

As at 31 December 2010, TL 509,779 (31 December 2009: TL 470,138) of the other assets is comprised of foreclosed real estate acquired by the Bank against its impaired receivables. Such assets are required to be disposed of within three years following their acquisitions per the Turkish Banking Law. This three year period can be extended by a legal permission from BRSA.

Commissions and other acquisition costs given to the intermediaries that vary with and are related to securing new contracts and renewing existing insurance contracts are capitalized as deferred acquisition cost. For the years ended 31 December 2010 and 2009, movement of deferred acquisition cost is as follows:

	31 December 2010	31 December 2009
Deferred acquisition cost at the beginning of the period	63,863	61,071
Expenses deferred during the period	117,643	81,240
Amortisation	(116,490)	(78,448)
Deferred acquisition cost at the end of the period	**65,016**	**63,863**

(Currency – Thousands of Turkish Lira (TL))

17. Deposits from banks

As at 31 December 2010 and 2009, deposits from banks comprise the following:

	31 December 2010	31 December 2009
Payable on demand	12,578	9,372
Time deposits	1,977,765	2,146,773
Total deposits from banks	**1,990,343**	**2,156,145**

18. Deposits from customers

As at 31 December 2010 and 2009, deposits from customers comprise the following:

	31 December 2010		31 December 2009	
	Demand Deposit	Time Deposit	Demand Deposit	Time Deposit
Saving deposits	1,460,236	10,953,658	1,044,253	7,720,411
Foreign currency deposits	1,077,084	11,265,022	1,034,248	12,112,138
Residents in Turkey	*1,040,000*	*10,459,850*	*1,001,966*	*11,201,744*
Residents in abroad	*37,084*	*805,172*	*32,282*	*910,394*
Commercial deposits	1,093,325	8,724,186	955,377	9,091,962
Public sector deposits	2,100,660	4,800,163	1,431,736	4,280,585
Others	1,521,494	2,979,686	1,439,926	3,749,686
Total deposits from customers	**7,252,799**	**38,722,715**	**5,905,540**	**36,954,782**

19. Funds borrowed

As at 31 December 2010 and 2009, funds borrowed comprise the followings in accordance with their original maturities:

	31 December 2010		31 December 2009	
	TL	Foreign currency	TL	Foreign Currency
Short-term funds	*187,803*	*3,488,644*	*154,675*	*1,403,643*
Short-term portion of long term funds	*24,688*	*39,183*	*513*	*303,050*
Total short-term funds	212,491	3,527,827	155,188	1,706,693
Medium/long term funds	72,979	2,934,909	83,383	2,751,346
Total funds borrowed	**285,470**	**6,462,736**	**238,571**	**4,458,039**

Funds borrowed comprise syndication and securitization loans bearing various interest rates and maturities and account for 9.98% (31 December 2009: 7.92%) of the Group's liabilities. There is no risk concentration on funding sources of the Group.

On 24 March 2010, the Bank obtained syndication loans in the amounts of US Dollar 170 million and Euro 566.5 million with interest rates of US Libor + 1.50% and Euribor + 1.50%, with the participation of 33 banks under the coordinatorship of West LB AG.

On 19 August 2009, the Bank has obtained a syndication loan having an amount of USD 203.5 million and Euro 372.5 million and interest rates of Libor + 2.50% and Euribor + 2.50%, with the participation of 29 banks and with a maturity of one year. The loan was repaid on 24 August 2010. On 7 September 2010, the Bank has obtained and renewed a syndication loan having an amount of USD 135 million and Euro 408 million and interest rates of Libor + 1.30% and Euribor + 1.30%, and the second tranche at the amount of US Dollar 10 million and Euro 45 million with the interest rates of US Libor + 1.75% and Euribor + 1.75% respectively.

(Currency – Thousands of Turkish Lira (TL))

20. Other liabilities and provisions

The principal components of other liabilities and accrued expenses are as follows:

	31 December 2010	31 December 2009
Blocked accounts against expenditures of credit card holders	1,239,556	702,953
Individual pension system payables	711,189	567,818
Reserve for outstanding claims for insurance contracts	423,325	296,715
Reserve for unearned insurance premiums	409,003	411,770
Import letter of credit	338,296	116,153
Investment contract liabilities	172,063	97,694
Reserve for employee severance indemnity	165,230	137,416
Reserve for short term employee benefits	126,217	113,670
Long term insurance contracts	110,798	163,332
Derivative financial instruments held for trading purposes	103,367	42,547
Taxes payable other than income tax	94,056	93,758
Provision for non-cash loans	92,704	103,669
Unearned income	70,096	87,620
Miscellaneous payables	66,853	63,231
Payables due to insurance activities	66,401	42,752
Clearing account	65,919	56,643
Provision for unused vacations	59,759	57,065
Blocked accounts	46,514	38,147
Other provisions	44,179	47,962
Payables to suppliers relating to finance lease activities	36,288	10,195
Deferred commission income for insurance contracts	30,462	34,792
Payables due to derivative financial instruments	24,933	42,183
Provision for cheques	16,251	12,000
Transfer orders	6,639	11,078
Other liabilities	59,129	12,295
Total other liabilities and provisions	**4,579,227**	**3,363,458**

Insurance contract liabilities are detailed in the tables below:

Reserve for unearned insurance premiums	**31 December 2010**	**31 December 2009**
Reserve for unearned insurance premiums, net	243,661	240,684
Reserve for unearned insurance premiums, reinsurer share	165,342	171,086
Reserve for unearned insurance premiums, gross	**409,003**	**411,770**

Reserve for unearned insurance premiums (net)	**31 December 2010**	**31 December 2009**
At the beginning of the period	240,684	210,947
Premiums written during the period *(Note 24)*	487,645	451,757
Premiums earned during the period *(Note 24)*	(484,668)	(422,020)
At the end of the period	**243,661**	**240,684**

Provision for outstanding claims	**31 December 2010**	**31 December 2009**
Provision for outstanding claims, net	218,984	156,002
Provision for outstanding claims, reinsurer share	204,341	140,713
Provision for outstanding claims, gross	**423,325**	**296,715**

(Currency – Thousands of Turkish Lira (TL))

20. Other liabilities and provisions *(continued)*

Provision for outstanding claims (net)	31 December 2010	31 December 2009
At the beginning of the period	156,002	123,108
Cash paid for claims settled during the period *(Note 26)*	(339,245)	(376,586)
Increase during the period *(Note 26)*	402,227	409,480
At the end of the period	**218,984**	**156,002**

Long term insurance contracts	31 December 2010	31 December 2009
At the beginning of the period	261,026	274,958
Entrance during the period	43,670	97,757
Withdrawals during the period	(21,835)	(111,689)
At the end of the period	**282,861**	**261,026**
Long term insurance contracts	*110,798*	*163,332*
Investment contract liabilities	*172,063*	*97,694*

Movement in the reserve for employee severance indemnity is as follows:

Reserve for employee severance indemnity	31 December 2010	31 December 2009
At the beginning of the period	137,416	127,012
Currency translation difference	49	7
Interest cost	8,745	7,456
Service cost	9,459	7,779
Payment during the period	(13,541)	(20,021)
Actuarial difference	23,102	15,183
At the end of the period	**165,230**	**137,416**

21. Income taxes

Components of income tax expense in the consolidated statement of comprehensive income are as follows:

	31 December 2010	31 December 2009
Income tax recognised in profit for the year		
Current income tax related to income from operations	(325,271)	(321,027)
Deferred income tax related to income from operations	5,370	53,654
	(319,901)	**(267,373)**
Income tax recognised in other comprehensive income		
Current income tax recognised in other comprehensive income	21,970	(40,138)
Deferred income tax recognised in other comprehensive income	(2,150)	(25,138)
	19,820	**(65,276)**
Income tax expense recognised in the consolidated statement of comprehensive income	**(300,081)**	**(332,649)**

(Currency – Thousands of Turkish Lira (TL))

21. Income taxes *(continued)*

The movement of current tax liabilities is as follows:

	31 December 2010	31 December 2009
At the beginning of the year	84,360	48,585
Current income tax charge	325,272	318,460
Current income tax recognised under equity	(21,970)	40,138
Taxes paid during the year	(272,600)	(322,823)
Current tax liabilities	**115,062**	**84,360**

As further detailed in Note 3(h) – *Income taxes*, temporary Article no. 69, added to Income Tax Law by Law no. 5479, and stating that investment incentive calculated in accordance with the legislative provisions effective as at 31 December 2005 could be only deducted from the profits of 2006, 2007 and 2008 has been amended following a decision taken by the Turkish Constitutional Court on 15 October 2009 since the clause restricting the deduction to 2006, 2007 and 2008 … was in contradiction of Constitutional Law. The Turkish Constitutional Court's decision was published in the 8 January 2010 Official Gazette number 27456. Based on this decision the Group's subsidiary operating in the finance lease business will be able to deduct investment incentives from future taxable profit without any time limitation. Hence, the Group has recognised deferred tax assets amounting to TL 25,342 as at and for the year ended 31 December 2010 (31 December 2009: TL 21,384).

A reconciliation of income tax expense applicable to profit from operating activities before income tax at the statutory income tax rate, to income tax expense at the Group's effective income tax rate for the years ended 31 December 2010 and 2009 is as follows:

	31 December 2010	Tax rate (%)	31 December 2009	Tax rate (%)
Profit from ordinary activities before income tax and non-controlling interest	**1,616,946**		**1,597,480**	
Taxes on income per statutory tax rate	(323,289)	(20.00)	(319,496)	(20.00)
Income not subject to tax	16,853	1.04	47,161	2.95
Investment incentives	3,958	0.24	21,384	1.34
Disallowable expenses	(1,823)	(0.11)	(11,239)	(0.70)
Unrecognised deferred tax assets on carried forward tax losses	(4,903)	(0.30)	(2,576)	(0.16)
Unrecognised deferred tax assets on temporary differences	(11,496)	(0.71)	-	-
Others, net	909	0.06	(2,607)	(0.17)
Income tax expense	**(319,901)**	**(19.78)**	**(267,373)**	**(16.74)**

(Currency – Thousands of Turkish Lira (TL))

21. Income taxes *(continued)*

Deferred tax assets and liabilities at 31 December 2010 and 2009 are attributable to the items below:

	31 December 2010	31 December 2009
Provision for employee severance indemnity and unused vacations	43,454	38,896
Other provisions	30,448	21,698
Investment incentive	25,342	21,384
Valuation difference for property and equipment	16,999	18,706
Valuation differences of financial assets and liabilities	15,501	18,947
Tax losses carried forward	567	3,797
Other temporary differences	1,582	3,035
Deferred tax assets	**133,893**	**126,463**
Net-off of the deferred tax assets and liabilities from the same entity	(24,502)	(24,525)
Deferred tax assets, (net)	**109,391**	**101,938**
Valuation differences of financial assets and liabilities	26,790	21,365
Valuation difference for property and equipment	1,203	2,274
Other temporary differences	445	4,639
Deferred tax liabilities	**28,438**	**28,278**
Net-off of the deferred tax assets and liabilities from the same entity	(24,502)	(24,525)
Deferred tax liabilities, (net)	**3,936**	**3,753**

22. Equity

Share capital

As at 31 December 2010, the authorized nominal share capital of the Bank amounts to TL 2,500,000 (31 December 2009: TL 2,500,000). The Bank's paid-in capital is divided into 250.000.000.000 shares, each with a nominal value of 1 Kuruş . As at 31 December 2010, share capital presented in equity amounts to TL 3,300,146 (31 December 2009: TL 3,300,146). An adjustment to share capital amounting to TL 800,146 at 31 December 2010 (31 December 2009: TL 800,146) represents the restatement effect of the contributions to share capital in equivalent purchasing power of TL at 31 December 2005.

Paid-in capital of the Bank amounting to TL 2,500,000 is divided into groups as follows: 43.0% Group (A), 15.6 % Group (B), 16.2% Group (C) and 25.2% Group (D). There is no difference between those groups in terms of dividend rights or any other privileges except for:

- Board of Directors' members; one member is appointed by the Prime Minister representing The General Directorate of the Foundations (Group A), three members are appointed representing Group (A), one member is appointed representing Group (B), and two members are appointed representing Group (C), and one member is appointed among the nominees offered by the shareholders at the General Assembly. Preference of Group (D) is primarily taken into account in the selection of the last mentioned member.

(Currency – Thousands of Turkish Lira (TL))

22. Equity *(continued)*

Legal reserves

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code ("TCC"). The TCC stipulates that the first legal reserve is appropriated out of the statutory profits of the Bank and its subsidiaries at the rate of 5%, until the total reserve reaches 20% of paid-in share capital. The second legal reserve is appropriated at the rate of 10% of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

Based on the resolution of the 56th Annual General Assembly held on 19 March 2010, the Bank's profit for the year ended 31 December 2009 amounting to TL 1,251,206 was transferred to legal reserves in the amount of TL 123,104 and to other reserves in the amount of TL 1,007,337; and the remaining profit amounting to TL 120,765 is decided to be distributed as dividends to equity holders of the Bank.

As at 31 December 2010, legal reserves amounts to TL 507,887 (31 December 2009: TL 384,414).

Non-controlling interest

As at 31 December 2010, non-controlling interests amount to TL 292,164 (31 December 2009: TL 303,345) analysed as follows:

	31 December 2010	31 December 2009
Capital and other reserves	389,715	370,705
Legal reserves	18,764	25,153
Retained earnings	(81,904)	(90,508)
Profit for the year	(34,411)	(2,005)
Total non-controlling interest	**292,164**	**303,345**

Fair value reserves of available-for-sale financial assets*:*

	31 December 2010	31 December 2009
Balance at the beginning of the year	388,238	692
Net gains/(losses) from changes in fair values	121,931	444,885
Related deferred and current income taxes	360	(67,211)
Net losses/(gains) transferred to profit or loss on disposal	(121,176)	8,141
Related deferred and current income taxes	19,460	1,731
Balance at the end of the year	**408,813**	**388,238**

(Currency – Thousands of Turkish Lira (TL))

23. 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 financial and operating decisions. For the purpose of these consolidated financial statements, shareholders and Group companies are referred to as related parties. Related parties also include individuals that are principal owners and management and members of the Group's Board of Directors and their families.

In the course of conducting its banking business, the Group conducted some business transactions with related parties on commercial terms.

The following significant balances exists and transactions have been entered into, with related parties:

Outstanding balances

	31 December 2010	31 December 2009
Cash loans	8,978	9,587
Non-cash loans	314,445	300,038
Deposits taken	930,696	1,323,067

Transactions entered into

	31 December 2010	31 December 2009
Interest income	742	915
Interest expense	(73,430)	(100,477)
Commission income	235	213
Other operating income	1,915	1,866
Other operating expense	(26,693)	(25,016)

No guarantees have been taken for the receivables from related parties.

There are no non performing loans granted to related parties.

Directors' Remuneration

As at and for the year ended 31 December 2010, the key management and the members of the Board of Directors received remuneration and fees amounted to TL 10,241 (31 December 2009: TL 12,784).

24. Other income

As at and for the years ended 31 December 2010 and 2009, other income comprised the followings:

	31 December 2010	31 December 2009
Earned premiums *(Note 20)*	484,668	422,020
Written premiums (Note 20)	*487,645*	*451,757*
Change in reserve for unearned premiums (Note 20)	*(2,977)*	*(29,737)*
Excess fee charged to customers for communication expenses	76,836	85,553
Rent income	30,878	4,838
Income from sale of fixed assets	22,315	43,023
Individual pension business income	19,951	15,863
Dividend income from equity shares	6,047	5,488
Income from associates accounted for using the equity method	2,027	2,143
Change in long term insurance contracts	-	3,989
Others	73,054	71,365
Total	**715,776**	**654,282**

(Currency – Thousands of Turkish Lira (TL))

25. Salaries and employee benefits

As at and for the years ended 31 December 2010 and 2009, salaries and employee benefits comprised the following:

	31 December 2010	31 December 2009
Wages and salaries	(373,729)	(348,283)
Other fringe benefits	(303,182)	(250,398)
Employer's share of social security premiums	(96,076)	(85,055)
Provision for short term employee benefits	(78,917)	(79,200)
Provision for employee termination benefits *(Note 20)*	(28,765)	(30,418)
Provision for liability for unused vacations	(2,694)	(10,397)
Total	**(883,363)**	**(803,751)**

The average number of employees of the Group during the year is:

	31 December 2010	31 December 2009
The Bank	10,545	9,553
Subsidiaries	2,017	1,978
Total	**12,562**	**11,531**

Reserve for employee severance indemnity

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank and its subsidiaries arising from the retirement of the employees and calculated in accordance with the Turkish Labour Law. It is computed and reflected in the financial statements on an accruals basis as it is earned by serving employees. The computation of the liabilities is based upon the retirement pay ceiling announced by the Government. The ceiling amounts applicable for each year of employment are TL (full TL) 2,517 and TL (full TL) 2,365 as at 31 December 2010 and 2009, respectively.

IFRSs require actuarial valuation methods to be developed to estimate the entity's obligation under reserve for employee severance indemnity. The principal actuarial assumptions used in the calculation of the total liability in the accompanying consolidated financial statements at 31 December 2010 and 2009 are as follows:

	31 December 2010	31 December 2009
Discount rate	5.66%	5.92%
Expected rate of salary/limit increase	5.10%	4.80%
Turnover rate to estimate the probability of retirement	1.13%	0.94%

The above rate for salary/limit increase was determined based on the Turkish Government's future targets for annual inflation.

(Currency – Thousands of Turkish Lira (TL))

26. Other expenses

As at and for the years ended 31 December 2010 and 2009, other expenses comprised the following:

	31 December 2010	31 December 2009
Incurred insurance claims *(Note 20)*	(402,227)	(409,480)
Insurance claims paid	*(339,245)*	*(376,586)*
Change in provision for outstanding claims	*(62,982)*	*(32,894)*
Banking services promotion expenses	(273,679)	(236,852)
Rent expenses and operating lease charges	(110,009)	(87,181)
Communication expenses	(59,156)	(58,127)
Advertising expenses	(54,361)	(49,324)
Saving Deposit Insurance Fund premiums	(49,600)	(36,950)
Other provision expenses	(39,183)	(5,109)
Cleaning service expenses	(29,681)	(28,784)
Change in long term insurance contracts	(21,835)	-
Energy expenses	(21,211)	(20,901)
Maintenance expenses	(16,825)	(18,136)
Credit card promotion expenses	(16,316)	(12,016)
BRSA participation fee	(15,042)	(5,236)
Computer usage expenses	(13,218)	(15,537)
Office supplies	(12,217)	(16,859)
Transportation expenses	(11,012)	(8,582)
Consultancy expenses	(10,877)	(7,400)
Loss on sale of assets	(10,667)	(1,684)
Hosting expenses	(10,355)	(8,875)
Individual pension business expenses	(1,953)	(3,762)
Other various administrative expenses	(206,550)	(178,264)
Total	**(1,385,974)**	**(1,209,059)**

27. Commitments and contingencies

In the normal course of business activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in the consolidated financial statements including:

	31 December 2010	31 December 2009
Letters of guarantee	8,226,927	6,205,974
Letters of credit	2,912,000	2,530,593
Acceptance credits	196,623	357,489
Other guarantees	24,278	26,777
Total non-cash loans	11,359,828	9,120,833
Credit card limit commitments	4,880,798	4,043,910
Loan granting commitments	3,698,348	2,841,941
Asset purchase commitments	904,825	298,677
Commitments for cheque payments	655,194	735,839
Commitments for credit card and banking operations promotions	201,107	135,591
Other commitments	166,611	11,656
Total	**21,866,711**	**17,188,447**

(Currency – Thousands of Turkish Lira (TL))

27. Commitments and contingencies *(continued)*

Pending tax audits

The tax and other government authorities (Social Security Institution) have the right to inspect the Group's tax returns and accounting records for the past five fiscal years. The Group has not recorded a provision for any additional taxes for the fiscal years that remained unaudited, as the amount cannot be estimated with any degree of certainty. The Group's management believes that no material assessment will arise from any future inspection for unaudited fiscal years.

Litigation

There are various legal cases against the Group for which TL 15,486 (31 December 2009: TL 75,347) has been provided, excluding routine insurance claims.

Due to the nature of insurance business and considering the general attitude of the legal system in favour of the policyholders, the Group provides in full for the claims opened, except for these claims including damages for mental anguish and risks which are not covered by the insurance policies. Since most of such material claims are ceded to reinsurance firms by facultative agreements, such claims, net of ceded amounts have no material effect on the Group's financial position.

28. Subsidiaries and associates

The table below sets out the Subsidiaries and shows their shareholding structure as at 31 December 2010:

Subsidiaries	*Direct Shareholding Interest (%)*	*Indirect Shareholding Interest (%)*
Güneş Sigorta AŞ	36.35	36.35
Vakıf Emeklilik AŞ	53.90	75.30
Vakıf Enerji ve Madencilik AŞ	65.50	84.92
Taksim Otelcilik AŞ	51.00	51.52
Vakıf Finans Factoring Hizmetleri AŞ	78.39	86.97
Vakıf Finansal Kiralama AŞ	58.71	64.40
Vakıf Pazarlama ve Ticaret AŞ	68.55	73.95
Vakıf Menkul Kıymetler Yatırım Ortaklığı AŞ	11.75	21.77
Vakıf Yatırım Menkul Değerler AŞ	99.00	99.44
Vakıf Portföy Yönetimi AŞ	99.99	99.99
Vakıfbank International AG	90.00	90.00
World Vakıf UBB Ltd.	82.00	85.24
Kıbrıs Vakıflar Bankası Ltd.	15.00	15.00
Vakıf Gayrimenkul Yatırım Ortaklığı AŞ	27.63	29.47
VB Diversified Payment Rights Finance Company (*)	-	-

(*) VB Diversified Payment Rights Finance Company is a special purpose entity established for the Bank's securitization transactions. The Bank or any of its subsidiaries does not have any shareholding interest in this company.

28. Subsidiaries and associates *(continued)*

Vakıf International AG, was established in 1999 to operate in the banking sector in foreign countries, in line with the Bank's globalization policy. Its head office is in Vienna.

World Vakıf UBB Ltd, was established in the Turkish Republic of Northern Cyprus in 1993 for offshore banking operations. Its head office is in Nicosia. The name of the Bank, which was World Vakıf Offshore Banking Ltd, has been changed to World Vakıf UBB. Ltd. on 4 February 2009. Pursuant to the 4 March 2010 dated and 764 numbered decision of Board of Directors of Central Bank of Turkish Republic of Northern Cyprus, the official authorization of World Vakıf UBB Ltd which was subject to consolidation in previous periods, is abrogated due to incompliance with the 7th and 9th articles of 41/2008 numbered Law of International Banking Units. World Vakıf UBB Ltd. will be liquidated according to 24 May 2010 dated decision of the Nicosia Local Court. Therefore, the financial statements of the company have not been consolidated as at 31 December 2010, but its equity until the liquidation decision date has been included in the accompanying consolidated financial statements.

Güneş Sigorta AŞ, was established under the leadership of the Bank and Soil Products Office in 1957. The Company provides nearly all non-life insurance products, including fire, accident, transaction, engineering, agriculture, health, forensic protection, and loan insurance. Its head office is in Istanbul.

Vakıf Emeklilik AŞ, was established under the name Güneş Hayat Sigorta AŞ in 1991. In 2003 the Company has taken conversion permission from Treasury and started to operate both in corporate and retail individual pension business. Its head office is in Istanbul.

Vakıf Finans Factoring Hizmetleri AŞ, was established in 1998 to perform factoring transactions and any kind of financing transactions. Factoring, the main operation of the Company, is a financing method that allows the trade receivables of production, distribution and service companies to be sold to intermediary institutions. Its head office is in Istanbul.

Vakıf Finansal Kiralama AŞ, was established in 1988 to enter into finance lease operations and related transactions and contracts. Its head office is in Istanbul.

Vakıf Pazarlama ve Ticaret AŞ, was established in 1993 to enter into finance lease operations (specifically the acquisition of vessels like cargo and ro-ro ships) and related transactions and contracts.

As per the resolution of the Board of Directors of the Bank on 22 August 2006, it was decided to merge Vakıf Deniz Finansal Kiralama AŞ and Vakıf Finansal Kiralama AŞ which are both consolidated in these consolidated financial statements. In accordance with the temporary 4th sub-clause of the 1st clause of the "Regulation on Establishment and Operations of Leasing, Factoring and Finance Companies", permission for Vakıf Deniz Finansal Kiralama AŞ to carry on its finance lease business was revoked on 25 June 2009. The application for the merger of Vakıf Finansal Kiralama AŞ with Vakıf Deniz Finansal Kiralama AŞ is not approved by the Capital Markets Board, and hence, activities for the merger have been stopped. The registered name of Vakıf Deniz Finansal Kiralama AŞ was changed to Vakıf Pazarlama ve Ticaret AŞ on 29 September 2009. The firm's head office is in Istanbul.

Vakıf Gayrimenkul Yatırım Ortaklığı AŞ, was established as the first real estate investment partnership in the finance sector under the adjudication of the Capital Markets Law in 1996. The Company's main operation is in line with the scope in the Capital Markets Board's regulations relating to real estate investment trusts including real estate, capital market tools based on real estate, real estate projects and investing on capital market tools. Its head office is in Ankara.

Vakıf Yatırım Menkul Değerler AŞ, was established in 1996 to provide service to investors through making capital markets transactions, the issuance of capital market tools, purchase and sales of marketable securities, operating as a member of stock exchange, investment consultancy and portfolio management. Its head office is in Istanbul.

28. Subsidiaries and associates *(continued)*

Vakıf Portföy Yönetimi AŞ, operates in investment fund management, portfolio management and pension fund management. Its head office is in Istanbul.

Vakıf Menkul Kıymetler Yatırım Ortaklığı AŞ, was established in 1991 in Istanbul. The main activity of the Company is to invest a portfolio (including marketable debt securities and equity securities) without having managerial power in the partnerships whose securities have been acquired; and also gold and other precious metals trading in national and international stock exchange markets or active markets other than stock exchange markets, in accordance with the principles and regulations promulgated by Capital Markets Board. Its head office is in Istanbul.

Kıbrıs Vakıflar Bankası Ltd. Şti., was established in 1982 in the Turkish Republic of Northern Cyprus, mainly to encourage the usage of credit cards issued by the Bank, to increase foreign exchange inflow, and carry on retail and commercial banking operations. Its head office is in Nicosia.

Taksim Otelcilik AŞ, was established under the Turkish Commercial Code in 1966. The main activity of the Company is to operate in the hotel business or rent out the management of owned hotels. Its head office is in Istanbul.

As per 17 June 2010 dated resolution of the Bank's Board of Directors, it is decided to sell 51% shares of the Bank in Taksim Otelcilik to domestic or foreign investors and to execute necessary procedures including assignment of a consultant.

Vakıf Enerji ve Madencilik AŞ, was established in 2001 to produce electrical and thermal energy, and to sell this energy in accordance with the related laws and regulations. Its head office is in Ankara.

29. Significant events

- There were monetary losses amounting to TL 379,000 incurred in the 2001 financial year as a result of the inflation accounting applied in compliance with the Temporary article no. 4 added to the Banks Law no. 4389 through the Law no. 4743. The tax returns of 2002, 2003 and 2004 were submitted with a condition stating that such losses should have been deducted and the Bank may appeal to the tax court for the tax return. The Bank appealed to the tax court for the corporate tax return on 22 February 2007. Ankara 5th Tax court decided in favour of the Bank and TL 125,187 was transferred to the Bank's accounts on 5 September 2007.

  "The Law on the Collection of Some of the Public Receivables by Reconcilement" no. 5736 was passed on 20 February 2008 in Parliament and approved on 26 February 2008 by the President of the Turkish Republic. In accordance with this law's first sub-clause of the third article, the tax authority would not insist on their claims with the banks which consider 65 percent of these losses in the determination of revenues for the year 2001 as previous year losses, and admit to correct taxable income for the subsequent years and declare that they abnegated from all of the courts related to this matter in one month after this law came into effect. As per the 27 March 2008 dated resolution of the Board of Directors, the Bank management has taken no decision for any reconcilements for the point in dispute stated in the first paragraph above.

  The related tax administration appealed to a higher court and the appeal was partially accepted by the State Council. Based on the decision of the State Council, the exercise of jurisdiction was renewed by the Ankara 5th Tax Court and the related case was partly revoked and partly declined. Consequently, the Bank has filed an appeal against the decision of the Ankara 5th Tax Court which is still in process at the State Council as at the report date. In accordance with the decision of Ankara 5th Tax Court, the Bank paid TL 20,484 accrued by the tax office on 3 December 2009.

(Currency – Thousands of Turkish Lira (TL))

29. Significant events *(continued)*

- As per the resolution of 56th Annual General Assembly of the Bank held on 19 March 2010, it is decided to distribute the net profit of year 2009 as follows, and the distribution has been completed in the current period.

	Profit Distribution Table of Year 2009
Profit of the year in the stand alone financial statement of the Bank	**1,251,206**
Legal reserves	123,104
Other reserves	1,007,337
Dividends to equity holders of the Bank	**120,765**

- In the Extraordinary General Assembly dated 22 October 2010, in order to diminish the maturity mismatch in financial statements resulting from the increase in demand for long term loans in banking sector and particular importance of use of funds other than deposits, it has been decided to issue, if needed, bonds or other debt instruments up to TL 3,000,000 TL (or equivalent foreign currency equivalent to this amount) within 3 years following General Assembly in accordance with the frame of regulations imposed by BRSA and CMB, limitations, form and scope conditions in Turkish Commercial Law and other relevant legislation.

30. Subsequent events

- In order to assess banking opportunities in Iraq Republic, Erbil Branch of the Bank has started its operations at 16 February 2011.
- As per the General Assembly dated 25 March 2011, the location of the Head Office of the Bank is changed as "Levent Mahallesi, Hacı Adil Yolu, Çayır Çimen Sokak, No:2, 1. Levent Beşiktaş/ İstanbul" in the Articles of Association of the Bank.
- On 28 March 2011, the Bank obtained syndication loans in the amounts of US Dollar 192.5 million and Euro 573.5 million with interest rates of US Libor + 1.10% and Euribor + 1.10%, with the participation of 34 banks under the coordinatorship of West LB AG.
- As per the resolution of 57th Annual General Assembly of the Bank held on 25 March 2011, it is decided to distribute the net profit of year 2010 as follows:

	Profit Distribution Table of Year 2010
Profit of the year in the stand alone financial statement of the Bank	**1,157,140**
Legal reserves	114,383
Other reserves	1,008,442
Dividends to equity holders of the Bank	**34,315**