

# ANNUAL REVIEW 2010



## NAVIGATION

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**Happy Banking at  
ABank!**



**ABank**

## **We promise our customers “Happy Banking”**

“Happy Banking” aims to differentiate ABank through providing customers with boutique services at all times thanks to the quality of its services. ABank successfully implements its strategies to be a strong medium sized bank with a growing branch network and expanding product range and customer segments, to sustain the privileged services.

## COMPANY PROFILE

Alternatifbank A.Ş. (ABank) is a private sector commercial bank, predominately serving small and medium scale companies. Having been established in 1991 and begun its banking operations in February 1992, the Bank's primary activities consist of corporate, commercial and retail banking.

Corporate and commercial banking represent the main field of expertise where the Bank has built a niche position over the years; however, since early 2010 ABank has made a return to retail banking, and begun to offer selective retail products and services.

Establishing sustainable relations with clients based on confidence, ABank has undergone a continuous expansion thanks to its dynamic and customer-oriented approach, as well as its technology and service quality. ABank is a solution provider which enjoys a high level of credibility in international markets, and is also an effective participant of the domestic market with its rapid growth potential and ability to offer solutions to its clients under different market conditions.

With the vision of being a preferred bank that derives strength from its competitive advantages, ABank goes to great lengths to operate as an efficient and profitable bank which does not compromise service quality, with a total of 53 branches particularly in major industrial cities of Turkey, as well as its alternative distribution channels and competent team comprising of more than 1,000 employees.

A member of the Anadolu Group, 4.16% of ABank's shares were trading on the Istanbul Stock Exchange as of December 31st, 2010. Anadolu Endüstri Holding A.Ş. controlled 77.72% of ABank shares, while other Anadolu Group companies held a combined 18.12% stake in the Bank.

# VISION, MISSION AND PRIMARY STRATEGIES

## VISION

TO BE THE “PREFERRED BANK” OF ITS CLIENTS, BY PROVIDING SOLUTION-ORIENTED AND HIGH QUALITY SERVICES IN THE REGION.

## MISSION

TO BE A PIONEERING FINANCIAL INSTITUTION, BY CREATING ECONOMIC VALUE WHILE PURSUING THE BENEFIT AND SATISFACTION OF ITS CLIENTELE, SHAREHOLDERS AND EMPLOYEES.

## PRIMARY STRATEGIES

- TO PURSUE GROWTH WITH A CAUTIOUS APPROACH ON ASSET QUALITY AND COST MANAGEMENT,
- TO BE AMONG THE PREFERRED BANKS IN TERMS OF SERVICES OFFERED TO THE TARGETED MASS AFFLUENT CLIENTELE,
- TO ENSURE CONTINUITY OF RELATIONS BY DESIGNING BANKING SOLUTION PACKAGES THAT ADDRESS THE TARGETED CLIENTS, PARTICULARLY THE SME'S,
- TO EXPLOIT CROSS SALES AND SYNERGY CREATION OPPORTUNITIES IN RELATIONS WITH INDIVIDUAL, COMMERCIAL AND CORPORATE CLIENTS.

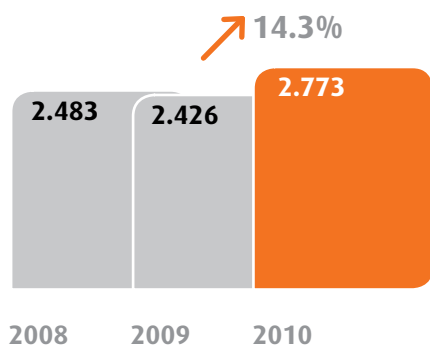
# FINANCIAL HIGHLIGHTS

	2008	2009	2010	% Change
<b>(USD million)</b>				
Total Assets	2,483	2,426	2,773	14.3
Total Loans (cash+non-cash)	2,397	2,852	3,334	16.9
Cash Loans (after provisioning)	1,574	1,807	2,090	15.7
Non-Cash Loans	823	1,045	1,244	19.0
Customer Deposits	1,753	1,667	1,584	-5.0
Total Securities	196	355	387	9.0
Subordinated Loan	-	-	105	
Funds Borrowed	353	264	416	57.6
Total Equity	265	307	319	3.9
Net Income	35	43	20	-53.5
<b>(%)</b>				
CAR	14.2	12.9	15.2	
Cost/Income	58.1	58.0	78.3	
ROE	15.6	16.0	6.7	
Funds Borrowed/Total Liabilities	14.2	10.9	15.0	
<b>(#)</b>				
Number of Branches	46	46	53	
Number of Employees	1,006	999	1,086	

## Total Assets

(USD million)

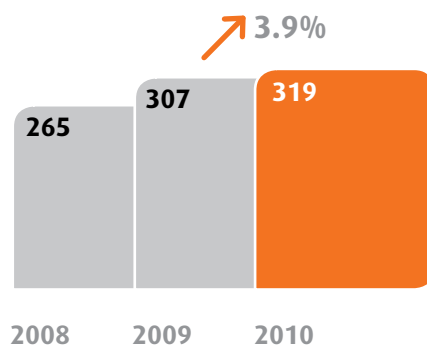
Change **+14.3%**



## Total Equity

(USD million)

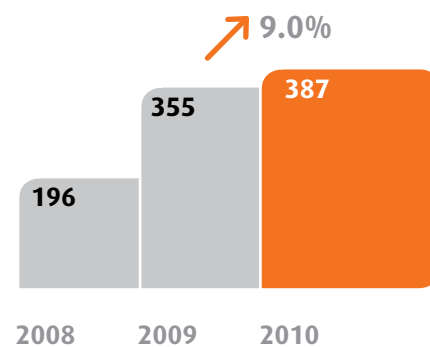
Change **+3.9%**



## Total Securities

(USD million)

Change **+9.0%**

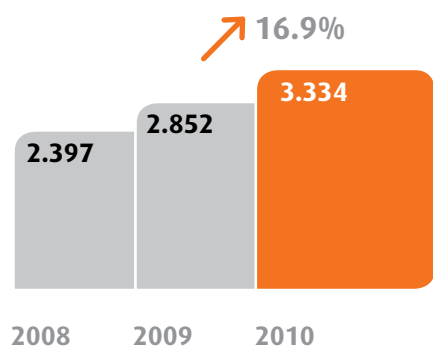


**IN PARALLEL WITH THE POSITIVE PERFORMANCE DEMONSTRATED BY THE BANKING SECTOR, ABANK SUCCESSFULLY CLOSED 2010 WITH 14% GROWTH IN ITS TOTAL ASSETS REACHING USD 2,773 MILLION.**

**Total Loans (cash+non-cash)**

(USD million)

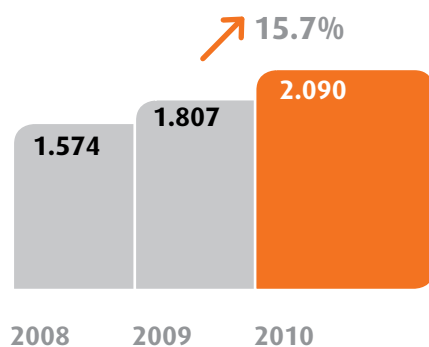
Change **+16.9%**



**Cash Loans (after provisioning)**

(USD million)

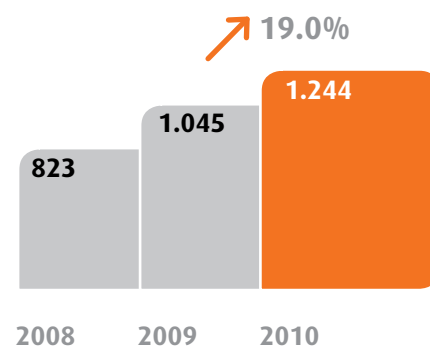
Change **+15.7%**



**Non-Cash Loans**

(USD million)

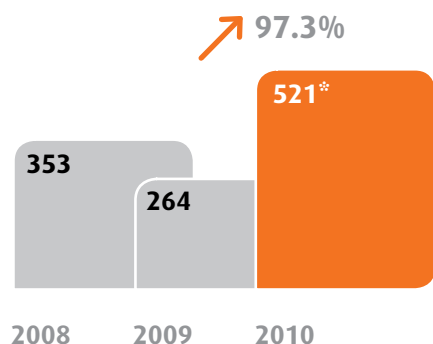
Change **+19.0%**



**Funds Borrowed**

(USD million)

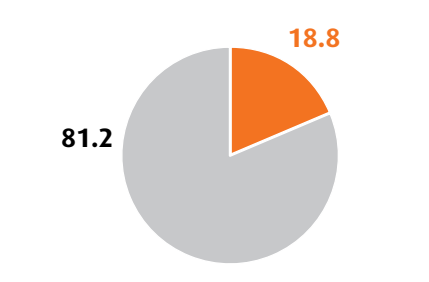
Change **+97.3%**



**Funds 2010**

(%)

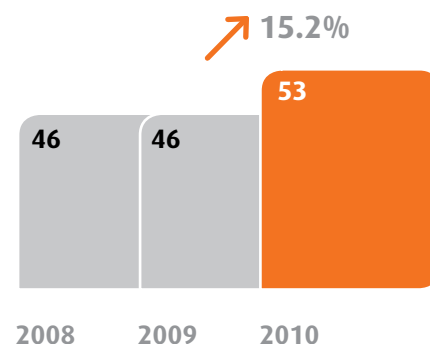
■ Funds Borrowed \*   ■ Other Liabilities



**Number of Branches**

(%)

Change **+15.2%**



\* Includes Subordinated Loan

\* Includes Subordinated Loan

# MESSAGE FROM THE CHAIRMAN



## Turkey attracted attention with its economic performance.

As we enter 2011, a time when global economies have sought to shake off the impacts of the crisis, we see that the recovery and normalization in developed Western countries has been slow. During the global financial crisis, central banks of developed countries pioneered by the FED (the US Federal Reserve Bank) cut interest rates and applied financial expansionary policies. However, as their economic activities slowed down, public finances deteriorated, raising concerns over their ability to rollover their debts. Additionally, rising oil and commodity prices pose a risk to the fragile growth and inflation rates.

The Turkish economy distinguished itself from developing countries in 2010: Turkey enjoyed a bright period in many aspects, such as its strong growth, the sound public budget performance and, accordingly, the fall in the public borrowing requirement, as well as the fact that inflation was kept under control. The recovery in industrial production to pre-crisis levels confirms the high performance of the real economy, while the debate over the sustainability of the current account deficit indicate that more radical measures have to be taken.

## Turkish banking sector emerged from the crisis by growing stronger.

With its robust structure, the banking sector provided a great contribution to the high performance and sustainable growth demonstrated by the Turkish economy in 2010. The banking sector continued to grow in 2010, with total assets rising by 21% to TL 1.008 trillion. Total loans increased by 34%, supporting the growth in the overall economy; in addition, the ratio of non-performing loans fell, improving the overall asset quality.



# ABANK REDEFINED ITS VISION, MISSION, TARGETS AND STRATEGIES AND CONCLUDED 2010 WITH A SUCCESSFUL PERFORMANCE.

Deposits were the most important source of funds for the banking sector in 2010; total deposits in the sector grew by 20%. External funds of the sector comprised the second most important funding base after deposits. Through syndicated borrowing which comprise the highest share, the total amount of loans received by the sector had increased by 39% year-on-year at the end of 2010. The sector's net profit for the period rose by 9.2%, while its total equity increased by 21% on the back of the increase in banking profits and the revaluation surpluses in securities. The sector's capital adequacy ratio stood at 18.9%, substantially higher than the legal requirement.

In parallel with the loose monetary policies being implemented by developed countries, the Central Bank of Turkey continued to reduce interest rates throughout the year and announced a series of measures aimed at financial stability as the inflow of hot money rapidly increased during the last few months of the year.

## A new breakthrough for ABank and a new era of growth

Under these circumstances, ABank redefined its vision, mission, targets and strategies and concluded 2010 with a successful performance.

In 2010, our Bank put a 5-year growth plan in practice and began to implement it with a firm and determined approach. Our target is to be a medium sized bank by expanding our products, services and branch network.

While moving forward in our organic growth process in 2010, we also took steps to establish a more effective and efficient organization, and began to operate in the field of retail banking in an important contribution to our growth in the sector, aiming to broaden our target customer base.

Despite its extensive investment activities, ABank wrapped up a profitable year in 2010, strengthening its financial structure.

Anadolu Group has maintained its strong loyalty as a major shareholder to ABank, and will continue to support the Bank's growth strategy.

ABank established strong synergies with AYatirim and ALease, the Group's other financial entities, which, in turn, allowed the Bank to offer complementary products and services.

While ABank successfully implements its strategies to be a strong medium sized bank with a growing branch network, the Bank will also reinforce its prestigious position in the sector by expanding its current product range and customer segments. With its strong shareholders' equity, our Bank is now in a position to carry out the investments necessary for growth.

I would like to take this opportunity to extend my sincerest gratitude to our competent staff, who contributed successfully to achieving our targets, as well as our customers who entrust us.

Yours sincerely,



**Tuncay Özilhan**  
Chairman of Board of Directors

# BOARD OF DIRECTORS



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## (1) Tuncay ÖZILHAN, Chairman

(1947) Mr. Özilhan graduated from Istanbul University, Faculty of Economics and later received his masters degree from Long Island University (USA). He has served as the General Director of Erciyas Brewery, Coordinator of the Beer Group and General Coordinator of the Anadolu Group. He was appointed as the CEO of the Group in 1984 and serves as the Chairman since 2007. He is also the Chairman of some of the Group companies. Mr. Özilhan is the Vice President of the High Advisory Council of the Turkish Industry & Business Association (TUSIAD), Chairman of the Turkish-Japanese Business Council of the Foreign Economic Relations Board (DEİK), Honorary Consul of the Republic of Estonia and President of the Anadolu Efes Sports Club. He has been the Chairman of ABank since 1996.

## (2) İbrahim YAZICI, Vice Chairman

(1949) Mr. Yazıcı graduated from Bursa University Business Administration Department, Faculty of Economics and Commercial Sciences. He holds his MBA degree from Florida Atlanta University. He joined Anadolu Endüstri Holding in 1980, where he held various management positions until 1990. Since 1990 he has acted as the Chairman and Board Member of several Anadolu Group Companies.

## (3) Cesur KILINÇ, Member of the Board

(1957) Mr. Kılınç graduated from Istanbul University Faculty of Law. Prior to joining Anadolu Group, he worked as Legal Counsel for ENKA and Coşar Müşavirlik A.Ş. He joined Anadolu Group as Legal Director in 1994 and became the General Legal Counsel of Anadolu Group in 1999. Since 1999, he has also acted as a Board Member of ABank and since 2008, as a Board Member of ALease and AYatırım and other companies within the Anadolu Group.

## (7) Murat ARIĞ, Member of the Board and President of Finance Group

(1960) Mr. Arığ graduated from Boğaziçi University, Mechanical Engineering Department. He holds his MBA degree from Florida Institute of Technology. He started his career as a marketing and credit analyst at İktisat Bank. In 1988, he joined Credit Lyonnais, Istanbul as Assistant Marketing Manager and then assumed responsibilities as Cross Border Leasing Manager at Credit Lyonnais Leasing International (Paris). After heading the Izmir Branch of Credit Lyonnais, he became EVP for Corporate and Correspondent Banking at Credit Lyonnais, Istanbul. In 1997, he became the General Manager of ALease. He served as CEO of ABank between 2003-2010. Since 2010 he serves as the President of Finance Group in Anadolu Endüstri Holding.

## (8) Mustafa Murat AKPINAR, Member of the Board

(1944) Mr. Akpınar graduated from Izmir School of Economics and Administrative Sciences. He started his career at İşbank in 1971 where he held several positions, latest being the Executive Vice President, Corporate and Commercial Loans, between 1996-2002. He also served as an auditor and Board Member at TSKB from 1989 to 2005. Between 2005-2006 he was the Board Member of İş Leasing. He joined ABank as a Board Member in 2008.



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#### (4) Güniz S. ŞENGÖLGE, Member of the Board

(1963) Ms. Şengölge graduated from Boğaziçi University Department of English Literature. She holds a masters degree from Istanbul University Department of International Management. She began her banking career in 1985 at Citibank, İstanbul and later moved on to Credit Lyonnais, İstanbul and Societe Generale, İstanbul. In 1993, she joined Garanti Bank as Assistant Manager in the Marketing Division and held various managerial positions for 11 years. For the last 6 years she was Executive Vice President in charge of corporate banking. In 2007 she joined ABank as a Board Member.

#### (5) Kemal SEMERCİLER, Member of the Board

(1958) Mr. Semerciler graduated from Uludağ University, Faculty of Economics and Administrative Sciences. He started his career in 1981 in Yapı Kredi Bank as an inspector. He held various managerial positions in the Financial Control Department, Accounting Department and Board of Inspectors in Yapı Kredi Bank and then served as the Assistant General Manager in charge of Compliance between 2006-2008. During his tenure as the consultant to the CEO between 2008-2009, he also held various Board Member and Auditor positions in several affiliates of Yapı Kredi Bank. In March 2010 he joined ABank as a Member of the Board.

#### (6) Mehmet Hurşit ZORLU, Member of the Board

(1959) Mr. Zorlu has a BSc degree in economics from İstanbul University. He previously worked for Toz Metal and Turkish Airlines. He began his career in the Efes Beverage Group (Anadolu Group) in 1984, as a Marketing Specialist and then held various posts including Assistant Marketing Manager, Assistant Project Development Manager, Project Development Manager and Business Development and Investor Relations Director and CFO. In 2008, he was appointed as the CFO of Anadolu Group and Board Member of ABank.

#### (9) Tanbey VEZİROĞLU, Member of the Board

(1944) Mr. Veziroğlu graduated from Ankara University, Faculty of Political Sciences, Economics Department. He started his banking career as an Internal Auditor at İşbank in 1967. Subsequently, he worked at Koçbank, and in 2001 became the Head of the Collection Services Department at the Savings Deposit Insurance Fund. Between 2003-2004 he acted as Board Member of Yapı Kredi Bank's Credit Committee before joining ABank as a Board Member in 2004.

#### (10) Hamit AYDOĞAN, Member of the Board and CEO

(1958) He graduated from Middle East Technical University, Political Science and Public Administration. He joined Yapı Kredi Bank as an Auditor in 1981, later held managerial positions in various branches between 1986-1993. He became the EVP responsible for Corporate Credits Marketing in 1993 and held various top management and board member positions in Yapı Kredi Faktoring, Yapı Kredi Leasing, Koç Leasing and Yapı Kredi Bank between 1993-2009. He became the EVP responsible for Corporate and Commercial Banking, Structured Project Financing and Financial Institutions at Yapı Kredi Bank and also held Executive Board Member and Credit Committee Member positions at Yapı Kredi Leasing and Yapı Kredi Faktoring between 2006-2009. He joined ABank in 2009 as a Board Member and a Credit Committee Member and was appointed as the CEO in February 2010.

## MESSAGE FROM THE CEO



### **2010 was a successful year for the national economy and our sector.**

Having professionally managed the global crisis, Turkey has emerged as one of the most successfully recovering countries, demonstrating rapid growth since the last quarter of 2009. After a 6% growth in the 4th quarter of 2009, the Turkish economy's year-on-year growth in 2010 reached 8.9%. This sterling performance was reflected in the ratings given to Turkey by international rating agencies, which raised the credit ratings of only a few countries, including Turkey, during the crisis.

While the Central Bank's monetary policies won acclaim both in domestic and international platforms, the robust structure and growth potential of Turkish banking sector played a key role in rapidly eliminating the hesitation with respect to the Turkish economy and financial sector's stability. The economic stimulus was supported by increasing domestic demand and industrial manufacturing as well as the strong support of the Turkish banking sector, all paving the way for a major growth in the SME sector in particular. In the light of these developments, competition in the Turkish banking sector further intensified in 2010, while banks' efforts to open new branches and to create employment gained momentum.

## **WITHIN THE FRAMEWORK OF A 5-YEAR STRATEGIC PLAN, ABANK BEGAN TO RESHAPE ITS INFRASTRUCTURE AND OPEN NEW BRANCHES WITH THE AIM OF BECOMING A MEDIUM SIZED BANK WITH 150 BRANCHES BY 2015.**

### **Our strategic plan for growth was emphasized during 2010.**

Within the framework of a 5-year strategic plan which has been structured in 2010, ABank began to reshape its infrastructure and open new branches with the aim of becoming a medium sized bank with 150 branches by 2015. On the other hand, we have decided to return to the retail banking activity. We have identified retail banking as one of our primary fields of growth, while we have directed our efforts into emphasizing further growth in corporate and commercial banking, with a major focus in SME segment.

Moreover, our Bank began to primarily offer such products as housing, automotive and consumer loans. With respect to credit cards, we signed a brand agreement to outsource Garanti Bank's Bonus Card. Our target in retail banking is not to perform mass banking, but to complete our product range and to offer customized services.

In line with the targets set out in the 5-year plan, ABank aims to raise the share of individual banking in its portfolio to 15%, with SME and commercial banking to comprise a 60% share, and corporate banking to account for a share of around 25% in the total portfolio.

### **Successful financial results support our growth.**

In parallel with the positive performance demonstrated by the banking sector, ABank successfully closed 2010 with 14% growth in its total assets reaching USD 2,773 million.

Our consolidated profit after taxes was recorded at USD 20 million in 2010. The fall in our profit in 2010 was due to a contraction in profit margins in parallel with the economic conjuncture and rising competition in the sector, as well as the requirement to allocate a higher level of loan provisions and the decline in revenues generated from the securities portfolio.

As a result of our cautious and balanced growth strategy, we have raised our total credit volume to USD 3,334 million, corresponding to 17% growth with respect to the end of 2009. On the other hand, with its gross non-performing loan ratio falling to 4.55% in 2010 from 6.77% in 2009, ABank improved its asset quality. Moreover, the Bank has secured 67% of its non-performing loans with mortgages, demonstrating a highly successful performance when compared to the sector average of 27%.

Our shareholders' equity rose by 3.9% to USD 319 million, while our capital adequacy ratio was comfortable at 15.2%.

## MESSAGE FROM THE CEO

ABank's operating costs are low when compared to the sector. Effective cost management brings a significant advantage by entering the growth period with relatively low expenses. This competitive edge is also supported by the fact that ABank has the highest volume of loans per branch, and the high volume of loans per employee with the superior credit efficiency at its branches.

The fact that ABank is not subject to high interest risk as a result of its effective risk management; in other words, the fact that the Bank does not expect any speculative interest-based profit, reduces the Bank's risk of loss in the event that interest rates begin to increase.

### **Our reputation in international markets allows us access to significant funding facilities.**

ABank strengthened its shareholders' equity in 2010 through a USD 105 million in subordinated loan with a 10-year maturity, which was extended by the IFC, the Black Sea Trade and Development Bank and the FMO. In May 2010 we have received a USD 200 million syndicated loan with one year maturity from international markets. Additionally, resources obtained from the European Investment Bank are successfully provided to SMEs. Acting with the target of financing foreign trade, ABank intermediated USD 2 billion worth of international trade in 2010.

The share of internationally supplied funds within the Bank's liabilities rose to 19% in 2010, one of the highest rates ever recorded in the Bank's history.

### **Our new motto is "Happy Banking".**

We determined our bank's slogan in 2010 as "happy banking". ABank enjoys the advantage of considerably higher customer satisfaction ratios than the sector average, according to market research studies and questionnaires. Each customer of ABank is approached with boutique banking services. We think that strategies based on quality, speed and active marketing will gain prominence during the service process, where there will be important factors to make a difference. It means being unique, not ordinary; and to work with experts who listen to you.

### **With "Benim KOBİ'm Geleceğin Yıldızı" (My SME is the Star of the Future), we carried out a social responsibility project which will yield concrete results.**

In cooperation with the Boğaziçi University, ABank, pioneers the strengthening of SMEs in terms of corporate aspects through the "Benim KOBİ'm Geleceğin Yıldızı" project, aimed at SMEs, and supports their growth on sound foundations through seminars which will be conducted in 15 cities over a 3-year period. Under the scheme, SMEs receive a total of 80 hours of training for 2 months, while successful SME representatives are awarded diplomas once these training sessions are completed. While our guiding support to these companies that make up the core of our economy fits with our Bank's mission, it also refers to a concrete step in terms of creating a stronger economy.

# ABANK ENJOYS THE ADVANTAGE OF CONSIDERABLY HIGHER CUSTOMER SATISFACTION RATIOS THAN THE SECTOR AVERAGE, ACCORDING TO MARKET RESEARCH STUDIES AND QUESTIONNAIRES.

## We have concentrated on growth...

In an increasingly competitive environment, while our Bank takes decisive steps towards implementing its determined targets and strategies, it will also perform the following actions in the coming period in which we expect to keep growing organically, to expand our market share in the sector:

We shall continue to open branches in our transformation into a medium-sized bank. We plan to open 10 branches in 2011 and 15 branches in each of the subsequent years. In terms of location, our branches are located in cities that already account for 90% of Turkey's GNP.

- We will be more aggressive in terms of marketing SME and retail banking products. By continuing to further enhance the synergy between ourselves and the distributor and supplier network of the prestigious companies which have working relationship with the Anadolu Group, we plan to generate higher economic value for both the Anadolu Group and our Bank.
- What sets ABank apart from the competition is its ability to provide boutique services. We will offer the same products as other banks; however, our customers will enjoy a special client status at ABank. In accordance with our Bank's "Happy Banking" motto, we shall do our best to sustain the customer satisfaction ratio at its high level.

I would like to take this opportunity to extend my gratitude to our Board of Directors for their generous support and to our staff for their dedication in reaching our targets, as well as to all our customers and correspondent banks for their confidence in ABank.

Yours sincerely,



**Hamit Aydoğan**  
Chief Executive Officer

# SENIOR MANAGEMENT



**(1) Hamit AYDOĞAN, Member of the Board and CEO**

See page 9 for Mr. Aydoğan's CV.



**(2) Haluk GÜVEN, Executive Vice President, Corporate/Commercial Banking**

(1955) Mr. Güven graduated from Marmara University Management Department and then received his masters degree from Mercer University in Atlanta. He started his banking career at Saudi American Bank, İstanbul, as Credit Department Head in 1985. He held managerial positions at Finansbank between 1988-1993. From 1993 to 1994, he was the Assistant General Manager, Corporate Banking at Bank Indosuez Generale Euro Türk. Between 1994-1997, he worked as Assistant General Manager, Credit and Marketing, at Bank Ekspres. He joined ABank in 1997 as the EVP, Corporate/Commercial Banking. He left ABank in January 2011.



**(3) Sadık SAYGICI, Executive Vice President, Credit Administration**

(1952) Mr. Saygıcı graduated from İstanbul University, Faculty of Economics. He began his banking career at Akbank in 1977 as an Assistant Inspector. Later he worked at İktisat Bank as the EVP of the Credit Department. Mr. Saygıcı joined ABank in 1998.



**(7) Mehmet SARAÇ, Executive Vice President, Operations**

(1954) Mr. Saraç graduated from Atatürk University French Department of the Literature Faculty. He started his career at Akbank in 1980 as Assistant Exchange Chief. From 1983 onwards, he held various managerial positions within the Operations Departments in several banks. After serving as the Assistant General Manager responsible for Operations at DenizBank for four years, he joined ABank in 2007 as the Executive Vice President, Operations.



**(8) Ertan GÜVENER, Executive Vice President, Information Technologies**

(1952) Mr. GÜvener graduated of the Middle East Technical University, Department of Electronic Engineering and he also holds his masters degree from the same faculty. He started his banking career at Citibank in 1985 as Manager responsible for the Information Technology Department. After serving in various managerial positions, Mr. GÜvener joined ABank as Executive Vice President, Information Technology in 2007.





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**(4) Cem ŞİPAL, Executive Vice President, Financial Control**

(1964) Mr. Şipal graduated from İstanbul University Econometrics Department. He received his MBA degree from Koç University in 1995. He first joined Yatırımbank and worked in the Credit Department. In 1991, he joined Koçbank and spent 10 years in the Financial Control Department, where he held various positions at different levels. He joined ABank in 2001.

**(5) Güldem KARAÇALI, CFE, CPA, Executive Vice President, Board of Inspections**

(1956) Ms. Karaçalı graduated from Ankara University, Faculty of Political Sciences. She received her masters degree in Finance from İstanbul University. She started her career at Osmanlı Bankası as an Internal Auditor in 1979 and then held managerial positions in Interbank between 1982-1990. Later she worked in VakıfBank as the Vice President of İstanbul Territory Credit Administration Department. In 1992, she joined ABank as the Corporate Marketing Department Head. Prior to becoming an Executive Vice President in 1998, she was the Vice President of the Internal Auditing Department. She is also a founder member of TIDE (Institute of Internal Audit- Turkey).

**(6) Murat ÖZER, Executive Vice President, Treasury**

(1967) Mr. Özer graduated from İstanbul University, Faculty of Economics. He started his banking career at Turkishbank in 1991. He joined ABank in 1993, where he held several positions in the Treasury Department before becoming Executive Vice President in 2004.

**(9) Ziya ALPMAN, Executive Vice President, Retail Banking**

(1959) Mr. Alpmán graduated from İstanbul Technical University. He started his banking career at Yapı Kredi Bank in 1985. In 1997, he joined Fortis Bank, where he was appointed the Executive Vice President of the Retail Banking Department. In 2007, he joined ABank as the Executive Vice President of Retail Banking.

**(10) Şakir SÖMEK, Executive Vice President, International Financial Institutions**

(1963) Mr. Sömek graduated from the Business Administration Department University of River Falls, Wisconsin, in 1985 and received his M.A. degree in Economics at The American University, Washington, D.C., in 1987. He began his career at Turkish Bank in 1988 as an account officer. Later he joined Industrial Bank of Cyprus as a Credit & Marketing Officer in 1990. In 1995, he joined Körfezbank, where he held various positions in the Financial Institutions Department. He joined ABank in 1998 as the Head of the International Financial Institutions Department where he became the Executive Vice President in 2008.

**(11) Sedef KARADADAŞ, Executive Vice President, Human Resources**

(1962) Ms. Karadadaş graduated from Middle East Technical University, Department of Economics. She began her career in İktisat Bank, İzmir Branch, in 1985. She became Assistant Vice President in the Organization and System Development Department of the same bank in 1989. She served as Vice President - Organization and System Development at Pamukbank (1992-1993), Finansbank (1993-1997) and Ulusal Bank (1997-1999). She joined ABank in 1999 as Vice President - Human Resources Organization and Quality Assurance. She became Executive Vice President in 2008.

# Happy Banking at ABank!



The most important steps of ABank's 5-year strategic plan are to increase the number of branches and to enter the retail banking segment, in a bid to reach a broadening client base.

## ABANK IN 2010 AT A GLANCE

- In 2010, ABank prepared and began to implement its 5-year strategic plan in order to become a medium-sized bank. The most important steps of this strategy are to increase the number of branches and to enter the retail banking segment, in a bid to reach a broadening client base.
- While aiming to achieve rapid growth in retail banking, the Bank focused on addressing small-scaled enterprises through enterprise banking and middle income and upper-middle income groups through individual banking. ABank began to allocate consumer loans in 2010 and will begin to outsource Garanti Bonus branded credit cards in 2011.
- In line with its target of offering a wider spectrum of products to its customers, ABank took measures to cater small enterprises through the POS agreement which it entered into with Garanti, as an important link in its chain of cash management services.
- The Bank took organizational and infrastructural steps aimed at supporting organic growth. Marketing and credit procedures of both head office and branches were restructured to ensure speed and flexibility in operational aspects and in terms of decision making.
- With the 7 new branches opened in 2010, ABank reached a branch network of 53 branches. The Bank began to shape its efforts with the target of becoming a medium-sized bank with 150 branches within 5 years.
- While strengthening its capitalization, ABank received USD 105 million subordinated loan with a 10-year maturity. The loan was the first ever subordinated facility in Turkey to qualify as Tier II capital, structured in the form of syndication.
- ABank launched a new media communication campaign with the motto, “Happy Banking”, which reflects the importance of high level of service quality in the Bank.
- The Bank launched a social responsibility project, entitled “Benim KOBİM Geleceğin Yıldızı” (my SME is the Star of the Future), which is a training program aimed at SMEs. Within the scope of the project, training sessions were gathered under the SME Management Certification Program, which is planned to be held in 15 cities over the next 3 years, and which will ingrain the philosophy of Strategic Management in SMEs.

# ABANK'S ACTIVITIES IN 2010: STRATEGIES, DEVELOPMENTS AND PERSPECTIVE

## ABank maintained its robust financial structure in 2010 and continued to focus on growth.

While 2010 was a period in which the impacts of the crisis on the real sector slowly began to dissipate, ABank raised its cash loans volume by 16% and its total loans volume by 17% to USD 3.3 billion, by paying utmost attention to asset quality. Accordingly, the Bank's total asset base increased by 14% when compared to 2009 on a consolidated basis and reached USD 2.8 billion.

In parallel with the growth plan which it put into effect, the Bank maintains its efforts to grow in the retail banking segment and to expand its SME client base. With USD 105 million of subordinated loan which it received in 2010, the Bank's capital adequacy reached 15.2% at the end of 2010. Deposits, which form the primary source of the Bank's funding, amounted to USD 1,584 million at the end of 2010, accounting for the highest share among its liabilities, at 57%. The loan/deposit ratio was realized as 132% in the same period.

## A strong position in its peer group

As one of Turkey's leading commercial banks in terms of branch efficiency, ABank ranked first in its peer group.

In terms of loan, deposit and total asset ratios, which were reported by the Banks Association of Turkey on 30/12/2010 and are separately calculated for each of the 18 privately-owned deposit banks, ABank ranks as follows;

- 3rd place in terms of "Cash + Non-cash loans / Number of employees"
- 6th place in terms of "Deposits / Number of employees"
- 1st place in terms of "Cash + Non-cash loans / Number of branches"
- 7th place in terms of "Deposits / Number of branches"
- 1st place in terms of "Cash loans / Total assets"

## Widening the branch network, expanding the client base...

In line with its growth strategy, ABank opened 7 new branches in 2010, expanding its branch network to 53. The Bank now has a presence in all of Turkey's industrial and trading hubs, which generate approximately 90% of Turkey's GDP. The Bank's branch network expansion marks a crucial step in further increasing the number of corporate, commercial and retail banking clients to which the Bank has access.

As a bank which gives priority to improving its customer base, expanding its branch network and gaining a presence at the right locations, ABank has undertaken some quantitative and systematic work relying on field research studies and scoring on a provincial basis.

ABank's service model aims to enable customers to manage their working capital needs more efficiently, while the ultimate target is to ease its customers' lives through a "full-service banking" approach comprising of credit, investment and cash management services, to improve customer satisfaction and to create a loyal and strong client base.

Value added service approach is leading ABank to further enhance its role in client relationship.

## Corporate and Commercial Banking: ABank's field of expertise

### A corporate and commercial banking strategy aimed at adding value to SMEs

ABank's corporate and commercial marketing strategy is centered on providing world class financial services, predominantly to small and medium-sized companies, which have been identified as the Bank's core market target.

**ABANK OPENED 7 NEW BRANCHES IN 2010, EXPANDING ITS BRANCH NETWORK TO 53. THE BANK NOW HAS A PRESENCE IN ALL OF TURKEY'S INDUSTRIAL AND TRADING HUBS, WHICH GENERATE APPROXIMATELY 90% OF TURKEY'S GDP.**

## ABank's Network in Turkey



### ADANA

- Adana Branch

### ANKARA

- Ankara Branch
- Balgat Branch
- Ostim Branch
- Siteler Branch

### ANTALYA

- Alanya Branch
- Antalya Branch
- Çallı Branch

### AYDIN

- Aydın Branch \*

### BURSA

- Bursa Branch
- Nilüfer Branch

### DENİZLİ

- Denizli Branch

### ESKİŞEHİR

- Eskişehir Branch

### GAZİANTEP

- Gaziantep Branch

### HATAY

- Antakya Branch \*

### İSTANBUL

- Head Office
- Central Operation and Technology Center
- Altunizade Branch
- Avcılar Branch
- Bakırköy Branch
- Bakırköy Çarşı Branch
- Bayrampaşa Branch
- Caddebostan Branch

- Efes Merter Branch
- Güneşli Branch
- Hadımköy Branch
- İkitelli Branch
- İstanbul Leather and Industry Free Zone Branch

- Kartal Branch
- Kozyatağı Branch
- Levent Branch
- Maltepe Branch
- Maslak Branch
- Main Branch
- Ramî Topçular Branch
- Sahra-i Cedit Branch
- Sirkeci Branch
- Şişli Branch
- Tuzla Organized Industry Zone Branch
- Ümraniye Branch
- Ümraniye - İmes Branch

### İZMİR

- Gaziemir Branch
- İzmir Branch
- Karşıyaka Branch
- Pınarbaşı Branch

### KAYSERİ

- Kayseri Branch

### KOCAELİ

- Anadolu Sağlık Merkezi Branch
- Gebze Branch
- İzmit Branch

### KONYA

- Konya Branch

### MALATYA

- Malatya Branch \*

### MANİSA

- Manisa Branch

### MERSİN

- Mersin Branch

### MUĞLA

- Bodrum Branch
- Marmaris Branch

### SAMSUN

- Samsun Branch

### TEKİRDAĞ

- Çorlu Branch

### TRABZON

- Trabzon Branch

\* Opened in the first quarter of 2011

Relying on its deeply rooted experience in Corporate and Commercial Banking (CCB), ABank built up its strategy on following principles:

- A dynamic and innovative approach
- Customer-oriented service
- Unwavering commitment to high quality
- A wider service network backed by a young and professional team and state-of-the-art technology
- Effective cost control and profitability
- Improving relationship banking
- Being an advisor for SMEs

### **An organizational structure aimed at increasing efficiency**

The branches are the Bank's main marketing/sales force, keep their finger on the market pulse. Their activities are complemented by the CCB Department located in the Head Office.

The primary goal of the marketing group is to satisfy clients' needs in a timely manner and at the highest possible level of quality through a relationship-driven approach to banking. In 2010, in line with the target of expanding the SME segment's customer base, the Bank's marketing strategies were built on the pillar of "relationship banking". In this manner, the sales-marketing teams in the branches have been reorganized in order to focus on mid-sized and larger SMEs independently.

The branch marketing staff is responsible for the entire loan process, from applications to allocation and monitoring of credit lines, and they report to the branch manager. Branch marketing staff and branch managers report directly to the Executive Vice President of Marketing.

The ultimate function of the CCB Department is to coordinate the branch marketing units and the Head Office support teams, and to provide price quotations, determine standard fees and commissions in accordance with the cost base, which is based on periodic benchmarking studies, and calculate the overall cost of the Bank's funding base.

In coordination with other related departments, the CCB Department also designs new products to enhance the Bank's cross-selling activities.

The department directs potential customers to the most appropriate branch locations and monitors follow up activity. Alongside this function, the department also structures and manages projects, particularly cash management projects, assigns and monitors branch targets, assesses branch performance and prepares new branch feasibility reports. When necessary, the CCB team also accompanies branch marketing teams on client visits.

### **Diversified products and services that meet customer needs**

ABank's principle is to engage in long-term banking relationships in its capacity as a trusted business partner with its corporate and commercial customers. The Bank reinforced its added value creation and customized solutions production processes with new and creative products and services.

ABank goes to every effort to provide its customers with products and services that match their particular requirements. The Bank believes understanding customers and creating suitable products and services are the key elements in achieving sustainable portfolio growth and profitability.

The CCB Department bases its development of new products and services on requests and demands from the branch network and on the results of its market research. Much of the development work requires cooperation between the legal, technical, credit management, and operational units which are coordinated and overseen by the CCB Department. The success of new products and services depends not only on marketability, low cost, and adequate returns, but also on a balance between fair pricing and revenue generation, ease of implementation, speed in bringing to market and contingency planning. ABank follows systematic and rigorous workflow structures in its design of new projects, ensuring maximum coordination and efficiency and a clear allocation of its duties and responsibilities.

# ABANK'S PRINCIPLE IS TO ENGAGE IN LONG-TERM BANKING RELATIONSHIPS IN ITS CAPACITY AS A TRUSTED BUSINESS PARTNER WITH ITS CORPORATE AND COMMERCIAL CUSTOMERS.

Through its CCB activities, ABank delivers a variety of tailor-made products and services for many of Turkey's leading companies and conglomerates as well as companies of various scales.

The Bank's product and service range includes standard commercial banking products and services such as loans, collections, and the financing and settlement of foreign trade transactions, which together constitute the main products sought after by the Bank's clients. In addition, ABank also offers risk management products which enable clients to monitor financial risks, such as foreign exchange and interest rate risks.

The Bank also offers auxiliary products to complete its service range. Functioning as an agency for Turkey's leading insurance companies, ABank provides customers with insurance instruments that most closely match their expectations. This is performed through "special solution" insurance applications that address the risks envisaged under workplace, transportation, engineering and liability insurance, in addition to the standard insurance products offered to individual clients.

## Multi-directional support to SMEs

ABank contributes to the growth of SMEs, which account for a significant portion of the Turkish economy, by assuming a guiding and advisory role through the procurement of various banking services and short and medium-term financing instruments.

The Bank considers helping SMEs improve their productivity so as to achieve growth as an essential part of its mission, along with assisting them in devising strategies aimed strengthening their corporate structures.

The "Benim KOBİM Geleceğın Yıldızı" project was launched in 2010 and comprises of training and informing activities, addressed at SMEs and assisting them in developing their competitive strength in national and international markets and helping them acquire effective management models. The project represents a further step towards becoming a "consulting bank" for SMEs by developing solutions for their non-financial needs.

ABank's primary goal is to fulfill all credit and cash management needs of SMEs, and be able to offer the banking services needed by these firms rapidly and with a full-service banking approach.

Companies with an annual turnover of up to USD 10 million are defined as SMEs. In identifying such companies as its strategic target segment, ABank has adopted a relationship-driven client service philosophy and targeted to increase its penetration in the SME segment.

A medium and long-term loan program targeting SMEs was implemented in 2009 in cooperation with KOSGEB (Small and Medium Industry Development Organization). This program was also carried out successfully throughout 2010. The Bank will maintain its close cooperation with KOSGEB, taking part in all interest support programs.

In 2010, two new products were launched for the use of SMEs; the "tourism credit facility" and "agri-credit facilities", both tailor made products specially designed for SMEs in their related sectors. Both products were prepared for financing and supporting SME's investment projects for periods of up to 5 years.

Besides offering customary banking products and services, the Bank also offers companies ad hoc financial solutions and develops projects that enhance their management quality and financial performance.

## Solid and deep-rooted customer portfolio

With the new segmentation performed towards the end of 2010, customers with an annual turnover of at least TL 25 million were classified as corporate clients, while those with a turnover of less than TL 25 million were classified as commercial clients. The aim of this new structure is to offer a boutique service by focusing on a smaller number of firms in corporate banking. While the number of active customers has remained steady, the Bank pursues a boutique service approach with the target of increasing customer efficiency. In parallel with this approach, ABank raised the number of its customers with a credit line by 15% to 6,483, while increasing short and medium-term credit volume. Those clients with no credit line but with significant volumes of

other banking products are labeled as "active clients with no credit lines", who provide the Bank risk-free returns.

Through the established performance management module, credits, deposits and other products are monitored and their efficiencies are measured on a weekly basis and on the basis of asset managers.

	2008	2009	2010
Clients with credit line	5,750	5,645	6,483
Active clients with no credit line	2,843	3,184	1,657
Total active clients	8,593	8,829	8,140

\*Of the 6,483 active clients with credit lines, 65% fall into the category of SMEs on the basis of their annual turnover

### Project finance to gain momentum

ABank provides long term project financing facilities to its clients, both through its own resources and from sources secured through domestic and international institutions such as the World Bank, the IFC, the EIB and Eximbank. These projects are prudently evaluated and screened to check if they meet the long term requirements of these supranational institutions, which act as the major creditors. ABank aims to pursue a more active project finance policy in the coming period with particular attention on hydroelectric power plants and real estate projects.

### Cash management products form an important element in full-service banking.

Cash management products are important drivers in expanding the client portfolio and deepening relations with customers. ABank offers continuous services to all of its retail and corporate customers with conventional cash management products, such as checkbooks, salary payment accounts, utility bill payments (electricity, water etc.), tax and social security premium payments.

ABank delivers customized solutions to its customers through project-based cash management products and services, such as the "Direct Debit System" and "Direct Collection System", which allows for cash flow optimization and the most efficient use of resources. The Bank's flexible decision process, coupled with its tailor-made approach, enables ABank to participate in substantial projects and achieve unmatched speed in the completion of projects. The Direct Debit System is the leading tool in electronic cash collection methods. The system paves the way for cash flows from the sales of goods and services via electronic data exchange under bank guarantee. These projects are designed in conformity with customer requirements and their infrastructure systems.

In addition, the Group synergy has set the stage for an expansion in the Bank's customer base to include retailers and large distributors handling group companies' products. A direct debit system between the Group's distributors and the Bank provides opportunities for cash management, deposit and a credit relationship.

### Credit Allocation and Credit Rating System: A system reflecting a strong credit culture

ABank works under a strict and centralized credit approval process, comprising well-defined operating and lending policies, and reflecting the Bank's commitment to a strong credit culture. While ABank's credit allocation and monitoring function only covers corporate and commercial loans, the Bank also included individual and enterprise loans in its scope of activity as it began to operate in the retail banking segment in 2010. Moreover, limit allocations regarding credit cards to be issued in 2011, as well as allocation and monitoring transactions with respect to those enterprises that will be included in the POS network, will also be included in this process.

ABank's credit process starts with a strategic decision on setting the General Target Market and Terms of Acceptance Criteria, which include sector, size and performance criteria. These general criteria are subject to regular revisions to take account of economic and sectoral developments.



## **BY THE END OF 2010, RETAIL BANKING STARTED TO OFFER A FULL RANGE OF SERVICES TO SELECTED CUSTOMERS IN BOTH INDIVIDUAL AND ENTERPRISE BANKING.**

Credit applications are initiated by account officers at the branches. Account officers prepare credit application packages for those potential clients who meet the Bank's previously set general target market and acceptance criteria. The customer is then assigned a rating which the Bank's system calculates based on various quantitative and qualitative criteria. Upon approval by branch managers, credit packages are sent to the Head Office and analyzed by the Credit Administration Department.

Evaluations of customers' financial and the nature of business performances cover all key and relevant measures, such as liquidity ratios, collection periods for receivables, inventory to turnover ratios, leverage, and profit margins. Industry and sector data, information from the Central Bank and other reliable statistical sources are also carefully assessed, providing ABank with a strong understanding of industry trends, company operations, quality of management and industry activity.

Based on these evaluations, various volumes of loans are approved by different bodies, depending on the assigned rating and type of collateral received. The most important bodies in the credit approval process are the Credit Committee and the Board of Directors. The Credit Committee meets on a weekly basis and the Board of Directors meets twice a month.

At the end of 2010 the Bank decided to increase the levels of authorization on the basis of all banking transactions and to launch organizational changes aimed at increasing efficiency. The limit on the size of loans that branches could extend was raised from TL 250,000 to TL 350,000. Branches were also authorized to supply loans in enterprise banking. In addition, the Bank's credit-risk monitoring units were restructured and adopted more improved monitoring schemes.

### **Improving credit rating system, broadening risk distribution...**

Effective risk management, supported by technology, which keeps a close view of current international methodologies, plays a crucial role in protecting asset quality, while also being one of the most significant complements of managerial capabilities during the decision making process.

As an essential part of the risk management and loan allocation process, ABank's credit rating system is sophisticated, comprehensive and thorough. The credit rating system is updated every year in accordance with changes in market conditions. The system was revised and reinforced by considering the obligations to be introduced by Basel II in 2010.

ABank acts responsibly in maintaining the balanced and wide risk distribution of its loan portfolio. The Bank has a prudent lending policy whereby no single sector exposure can exceed 15%, while the Bank's top 100 customers cannot account for more than 40% of its total loans.

The construction and infrastructure segment commands the highest share in the total credit portfolio with a 13% share, followed by food and beverage (11%), automotive (8%) and textiles (8%). The share of Group companies in the total loan book is a mere 2%.

Although more sizeable project-based loan transactions are undertaken with large corporations, SMEs account for 52% of ABank's total active corporate-commercial customer portfolio.

On the back of effective risk management, loan restructurings and the economic recovery in 2010, the Bank was able to significantly reverse the upward trend in its non-performing loans ratio during the crisis. Thus, the gross non-performing loan ratio fell to 4.55% in 2010 from 6.7% in 2009.

### **Retail Banking: ABank's route to growth**

By the end of 2010, Retail Banking started to offer a full range of services to selected customers in both individual and enterprise banking.

In parallel with the launch of the Bank's Retail Banking operations and its growing branch network, ABank aims to raise the volume of SME loans, as well as their share in total loans. While SMEs with a turnover of up to TL 5 million will be served within the framework of enterprise banking, ABank targets a widespread risk distribution within a wide client base.

The Bank's target mass in individual banking is customers in middle and upper middle income groups. In the second half of 2010, individual credit marketing and allocation efforts were initiated as a first phase.

To complete the product list, Credit Card and POS license agreements were signed with Garanti Bank. The customization and integration process was initiated with the relevant parties, and the product launch will take place in 2011.

Through the introduction of credit cards offering the advantages of the Bonus brand, with its extremely wide marketing and usage network in Turkey, ABank took a significant step towards establishing fully integrated services for its customers.

In Retail Banking, the Bank's target is to set up a structure which is innovative, employs efficient use of technology and is strengthened through sectoral collaboration. In this context, the progress demonstrated through the Bonus credit cards was further enhanced with the collaboration concerning the POS network.

ABank aims to expand its product and service range with the introduction of deposit and investment products, insurance products, cash management products, credit cards and alternative distribution channels, and to step up cross-selling activities in the retail banking segment.

### **International Financial Institutions: A strong presence in the international banking arena**

#### **A strategy based on reputation and strong relations**

International Banking is one of the key business lines consistently adding value to ABank financially and in terms of its reputation. The Bank commands a respected position in international markets, backed by its strong financial structure as a member of a leading Turkish conglomerate.

The main strategy of ABank's Financial Institutions Department is to focus on building mutually beneficial long-term relationships with trusted counterparties, through routing reciprocal business as well as maintaining close communication.

ABank's active correspondent banking network includes around 120 banks worldwide. This well-positioned and efficient correspondent bank network continues to grow in line with its customers' requirements and global trends and developments.

The Bank also maintains strong and long-standing relations with world's foremost export credit agencies as well as leading financial and supranational institutions worldwide, including the World Bank, the IFC, the Black Sea Trade and Development Bank and the FMO.

#### **A year of success...**

In line with this strategy in 2010, ABank further improved overall correspondent bank network and financial institutions relations, resulting in increased transaction volumes, facilitating a diversification of its wholesale funding and lowering its cost of funding.

With its business focus, experienced staff, specialized knowledge, operational efficiency, optimized correspondent network and customer-tailored and flexible solutions in international trade, ABank meets all the needs of its customers completely and swiftly. The Bank enables its customers to export with confidence to relatively difficult and risky markets, as well as developed countries.

The total volume of import and export transactions which ABank intermediated in reached USD 2 billion during the year. The increase in foreign trade transactions has led to a corresponding increase in pre-export and re-financing of bilateral funding opportunities throughout 2010. The Bank accelerated its efforts to enhance its product diversity, widen the number of its correspondent banks and raise its international credit limits, particularly with respect to the finance of foreign transactions and foreign trade. The Bank is also set out to work on projects which aim to offer new borrowing instruments.

# WITH ITS BUSINESS FOCUS, EXPERIENCED STAFF, SPECIALIZED KNOWLEDGE, OPERATIONAL EFFICIENCY, OPTIMIZED CORRESPONDENT NETWORK AND CUSTOMER-TAILORED AND FLEXIBLE SOLUTIONS IN INTERNATIONAL TRADE, ABANK MEETS ALL THE NEEDS OF ITS CUSTOMERS COMPLETELY AND SWIFTLY.

## High performance in providing foreign resources

The high level of credibility that the Bank enjoys in the international arena is manifested in the comfortable credit limits received from the world's premier banks and financial institutions. This credibility furnishes the Bank with a competitive edge in its pricing ability when serving its customers' trade finance requirements.

In May 2010, ABank secured a one-year EUR 113 million and USD 42.5 million dual tranche term loan facility from major relationship banks. The transaction represented the highest amount raised by ABank with a one year maturity transaction and the pricing of the transaction was highly successful at the time. With this facility, ABank once again confirmed its credibility and strong standing in the international financial community. This facility also highlighted the Bank's strong reputation in the syndicated loan market, as being the only bank within its peer group to maintain its position in the market.

ABank notched up another success in the international markets in December 2010 by obtaining a USD 105 million, 10-year subordinated loan from the IFC, the Black Sea Trade and Development Bank and the FMO, three major multilateral institutions. The 10-year loan was the first syndicated subordinated facility in Turkey to qualify as Tier II capital, which is the second-most reliable form of capital in regulatory terms. The loan expanded ABank's capital base and enhanced its lending capabilities to small and medium enterprises.

As part of its long-term external funding, at the end of 2010 ABank held in its books a EUR 32 million and USD 31 million 7-year maturity World Bank export-credit facility and a EUR 20 million EIB loan. The World Bank and the EIB have proven a valuable resource for Turkish companies which are conducting international trade. The Bank also managed to raise USD 160 million in funds from bilateral transactions during 2010.

## Ratings from Fitch

Foreign Currency Long-Term	Short-Term	Individual	Support	Turkish Lira Long-Term	Short-Term	National
<b>BB</b> (Stable Outlook)	<b>B</b>	<b>D</b>	<b>3</b>	<b>BB</b> (Stable Outlook)	<b>B</b>	<b>AA (tur)</b> (Stable Outlook)

In its report dated 20 August 2010, the international rating agency, Fitch Ratings, underlines ABank's strengths as follows:

- Sound profitability
- Comfortable liquidity
- Minimal exposure to market risk
- The loan portfolio is well diversified by sector
- The short term nature of ABank's loan book provides comfort in terms of liquidity management

### Treasury: A profit and market information center for the Bank

ABank's Treasury aims to achieve revenue growth through commercial transaction volumes and to manage the Bank's balance sheet risks effectively.

ABank's market knowledge and experience allow it to actively operate in the fixed income and money markets. ABank enjoys a reputation of being a strong market player, and it is also expanding its presence in the derivatives market, enhancing its competitive edge and importance in the developing financial markets.

ABank's Treasury Department has two major responsibilities: managing market risk and acting as a fund management unit. The Department works with the well-defined objective and responsibility of focusing on liability management and primarily serving as a fund management unit for both the Commercial and Retail Banking Departments.

ABank boasts a competitive edge in fund management, thanks to its managerial capabilities and corporate qualifications:

- The Bank has strong funding capability based on its experience and professionalism and applies effective and cautious liquidity management. The Treasury Department's success in the trading of treasury instruments assists the Bank when it comes to accessing liquidity through OTC markets.
- ABank is served by a highly experienced, coherent and qualified group of employees, who have been working at the Bank for a long period of time and are therefore well aware of what the Bank requires, who have adopted the Bank's corporate culture, and who work as a team.
- The increasing level of know-how and customer relations bolsters the Bank's branch expansion program in parallel with its strategy of growth. The support provided to the branches, particularly with respect to sophisticated derivative products, has gained further importance, in line with enhancing customer interest in and appetite for derivatives and options.
- Strict risk control policies are maintained on every instrument, particularly when it comes to trading and general balance sheet management.

### Treasury operates through 3 units.

The Treasury Marketing Unit (TMU) is responsible for sales activities. In order to enhance coordination between treasury and marketing activities, the TMU works closely with the branches, regularly visits customers and provides tailor-made solutions to meet their financial requirements.

The Asset and Liability Management (ALM) Desk manages both the TL and FX asset and liability positions. The ALM Desk is organized under two separate divisions: the FX management unit and the TL money market/liquidity management unit. The FX division covers TL/FX and FX/FX activity and plays a crucial role in providing the TMU with competitive pricing, especially in international trade transactions. The TL/Fixed Income Unit manages the Bank's TL liquidity and determines the pricing of deposits and TL fixed income instruments.

The Trading Desk is responsible for the trading of TL fixed income, FX and derivatives instruments. The Desk constantly generates trade, investment ideas and hedging strategies based on its analysis on market trends and risk perceptions, increases transaction volumes and offers an increasing contribution to the Bank's revenues.

The Treasury Department has a market research team that provides both the Department and the Bank's management with frequent updates of trends and risks in the economy and the markets, as well as enabling the branches to fulfill their responsibility of conveying resourceful information to customers concerning market dynamics. The team produces both periodical and special reports, in Turkish and English versions.

### A player gaining strength in the field of derivative products

The growth in the financial markets, the changing needs of the real sector and recent developments in risk perception have raised the need for derivatives and a more regulated derivatives market as a means of risk hedging. In parallel with the increasing interest in derivative products, ABank has responded to customers' hedging needs by strengthening its treasury services, while derivatives operations have become another important profit center within the Treasury department. When compared with the EU average and also with new EU members, Turkey's banking sector and the derivatives market offer tremendous development potential.

# ABANK'S TREASURY AIMS TO ACHIEVE REVENUE GROWTH THROUGH COMMERCIAL TRANSACTION VOLUMES AND TO MANAGE THE BANK'S BALANCE SHEET RISKS EFFECTIVELY.

ABank aims to become a powerful player at the forefront of the derivatives market.

## Managing market risks successfully

Foreign exchange, interest rate and liquidity risks are calculated at ABank through Value at Risk (VaR) methodology, in which particular data on the Turkish markets is thoroughly researched and utilized. The model incorporates limits designed for each type of product. The software package currently in use is produced in-house, providing detailed reports on different positions carried, allowing for close monitoring of the balance sheet by the management.

Liquidity management in both local and foreign currencies is one of the main priorities of the Treasury Department, which has performed successfully even in the difficult period of high market volatility during the global financial crisis. FX and fixed income market strategies, built on risk-benefit optimization intelligence, enabled the Treasury Department to perform beyond expectations in 2010.

Interest rate risk is tracked with the VaR model. The model provides sensitivity analysis for different types of money market products, including loans, coupon and discount bonds, forwards, FRAs, and interbank placements.

All trading and position limits are determined by the Board of Directors, and positions are reported to ALCO members on a weekly basis.

The Treasury Control Unit (TCU), which reports to the Internal Control Center, is responsible for monitoring treasury activity for counterparty, price, and liquidity risk limits, as well as for reporting these to ALCO. As a result of the reports, market risks taken by market operations are kept well contained.

## Internal Systems: Ensuring compliance with governance and legal requirements

ABank's Internal Systems oversee and coordinate all audit, control, compliance and risk management activities through the Internal Audit, Internal Control, Risk Management and Compliance departments. While each department's duties and responsibilities are separate and unique as laid out in charters approved by the Board of Directors, the departments coordinate to form a balanced and comprehensive system of internal control. The Internal Systems ensure that all of ABank's activities conform to governance and organizational

structures approved and established by the Bank's Board of Directors, Audit Committee, Senior Management, while meeting the requirements of the relevant laws and regulations. All of ABank's employees are held responsible for upholding management's strategies and policies, adhering to the applicable laws and regulations and performing their work in a manner which is consistent with the Bank's operating principles. The Internal Audit and Internal Control Departments issue periodical reports and hold quarterly meetings with the Audit Committee and Bank Risk Committee. These reports and meetings serve as platforms through which the Departments' activities are reviewed and risk management issues and the activities of the risk committees are discussed. The management reviews the Bank's Internal Systems and affiliates through presentations and meetings with the Bank Risk Committee and the Audit Department. Such meetings aim to identify and address any weaknesses or deficiencies and seek to ensure that Internal Systems are optimally equipped to monitor, measure and control all risks.

## Internal audit facilities

All internal audit facilities at ABank and its affiliates are performed under the coordination of the Audit Committee. In this context, the Internal Audit Department reports directly to the Audit Committee which consists of two members of the Board of Directors and is exclusively responsible for overseeing all internal control systems.

The mission of the Internal Audit Department is to perform independent, objective assurance and consulting activity designed to add value and to improve the Bank's operations, to help the Bank accomplish its objectives by bringing a systematic and disciplined approach towards evaluating and improving the effectiveness of the risk management, control and governance processes. The scope of the internal audit activity is to determine whether the organization's network of risk management, control and governance processes, as designed and represented by management, are adequate and functioning.

The major focus of the Internal Audit facilities are, in compliance with the International Internal Audit Standards, to perform objective and reliable audit and to execute investigation, and inspection activities in all departments, branches and affiliates such that the banking operations remain in compliance with the procedures, rules and regulations.

In order to accomplish these key objectives and to maximize the performance and efficiency within the Internal Audit Department;

- Internal Audit facilities are assessed in comparison with IIA's International Internal Audit Standards and Best Practices. These assessments are performed internally on an annual basis and performed by an international audit firm over 5-year periods. In 2010 all audit activities were evaluated in conformity with International Audit Standards. Quality assessment activities were carried out by Ernst&Young.
- Planned and organized investment in the training of audit personnel is provided through internal training and other training programs. Meanwhile, the Bank promotes the international certification of personnel.
- All audit activities are performed with internal audit software (FINCAP), which is developed in house.

The principal activities of the Internal Audit Department include:

#### Audit Activities:

- Periodic audits of all branches, departments, and affiliates
- Periodic audits of all critical processes and the control mechanisms, in line with BRSA regulations on Management Declarations. The main goal of the Management Declaration is to provide an assessment and an assurance from the Board of Directors regarding the efficiency and effectiveness of all control mechanisms. In this context, the Internal Audit Department performs audits of these processes and control mechanisms
- Periodic audits of the Internal Control Coordination and Risk Management Departments
- Periodic audits of compliance with AML legislation
- Periodic IT audits
- Inspection and investigation
- Follow-up measures to verify that the audited units have implemented the agreed-upon corrective actions
- Periodic activity reports submitted to the Audit Committee regarding all audit facilities and non-corrected findings.

#### Consulting Activities:

- Providing recommendations to maximize the efficiency and effectiveness of all banking activities and to minimize and manage risks
- A joining of all workshops conducted for new projects planned to maximize efficiency of all banking activities
- Providing input on new products and services and providing relevant procedural guidelines.

All auditing and consulting activities are subject to approval by the Audit Committee and all facilities are reviewed through quarterly meetings held with the Audit Committee and periodic meetings held with the Board of Directors.

#### Internal Control Coordination Department

The Internal Control Unit operates under the guidance of the Board Member in charge of internal systems and it is directly responsible to the Board. The Unit carries out its responsibilities to the Board through the Supervision Committee.

The Head Office Control Unit, Branches Control Unit and Fundamental Control and Auxiliary bodies operate under the Unit's oversight, and employees of the Unit are assigned accordingly.

The Unit is designed to be a part of the Bank's daily functioning and conducts its activities in compliance with Turkish laws, regulations and other official communiqués as well as the Bank's internal procedures, intrinsic policies and principles. The monitoring functions of the Unit include:

- Monitoring the operational processes related to the implementation of banking activities
- Monitoring information systems and communication channels
- Monitoring financial reporting systems
- Checking the compatibility of new products and transactions and other outstanding or planned activities of the Bank with laws and related regulations, customary banking practices and principles.

The fundamental duty of the Unit is to protect the Bank's assets and conduct monitoring and supervision to assure the integrity, reliability of the accounting and financial reporting systems and the timeliness of the data collection processes, and to ensure that the Bank's activities are implemented efficiently and in compliance with the laws and related regulations, along with the cardinal rules of banking. The Internal Control System and the manner in which it carries out its duties are set out and designed according to the special features of the Bank's intrinsic activities, though the participation of the managers of relevant departments.

In addition to laying the very foundations of the Internal Control System, the Unit also coordinates various departments that conduct a range of control and supervisory duties in order to assure the integrity of the overall control function.

# THE SCOPE OF THE INTERNAL AUDIT ACTIVITY IS TO DETERMINE WHETHER THE ORGANIZATION'S NETWORK OF RISK MANAGEMENT, CONTROL AND GOVERNANCE PROCESSES, AS DESIGNED AND REPRESENTED BY MANAGEMENT, ARE ADEQUATE AND FUNCTIONING.

The Unit is authorized to monitor, examine and control the activities of branches, departments based in the head office and subsidiaries subject to consolidation on a daily, weekly, monthly and other periodic basis, and is also authorized to perform spot inspections. The Unit also conducts special checks as requested by the Board and the Supervisory Committee.

In order to monitor, examine and control the safe implementation of each function of the Bank from its internal control mechanisms, the staff of the Internal Control Unit requires information based on reporting from relevant departments, and the Unit examines various control documents and conducts other processes based on specific or general observations. The findings are reported or processed as warnings to be notified to the relevant departments. Moreover, the Unit staff is authorized to demand additional explanations from the Bank's employees or seek their opinion regarding matters that are controlled, examined and monitored.

The Internal Control Unit also follows up on corrections to any reported deficiencies. A steady flow of information is provided by the relevant department to the Internal Control Unit relating to the correction of the problem as determined through the Unit's findings.

The staff of the Unit presents the outcomes of their studies to the Internal Control Coordinator. The Coordinator then prepares and communicates monthly reports to the Supervisory committee, the CEO and the relevant members of the senior management, along with advice and recommendations. The Coordinator may also share the findings with the branch and other smaller unit managers if deemed necessary. Periodic assessments based on these reports serve to develop and amend existing control systems and to ensure that necessary precautions are taken. These discussions are presented to the Supervisory Committee during quarterly meetings.

## Risk Management Department

The Risk Management Department is responsible for

- identifying credit, market and operational risks for the Bank,
- measuring risks through the appropriate methodology developed,
- monitoring and managing all potential risks for the Bank in a centralized and efficiently coordinated manner.

The primary goal of the Risk Management Department is to inform each business line of the appropriate capital allocation (economic capital) for risk they are exposed to, and to increase value-added by maximizing the risk adjusted return on capital. In this respect, each business line is geared to design an appropriate cost-benefit schedule to maximize its return expectation with a minimum cost of capital.

ABank's Risk Management Policy covers market, credit, operational and liquidity risk management. ABank places a high level of importance on risk management. Every stage of the Bank's operations is structured in line with the Bank's principles of risk management and every employee undertakes a commitment to those principles. ABank's size and flexibility also enable it to adapt its risk management policies to continuously changing market conditions. ABank's risk management policy allows actual risks to be quantified, active risk limits to be established and the capital to be allocated in an optimal manner.

ABank aims to adopt the best risk management practices and designs all processes in compliance with the Bank's business strategy, legal requirements, the requirements set out in the Basel II & Capital Requirements Directive (CRD), while also significantly enhancing the Bank's risk management capabilities and thereby delivering substantial business benefits across the organization.

## Organizational structure

The Bank's risk management starts at the Board of Directors. The Bank's Risk Committee, Asset Liability Committee (ALCO), Credit Risk Committee (CRC), Market Risk Committee (MRC), Operational Risk Committee (ORC) and the Risk Management Department are the most important bodies in the risk management structure.

The Board of Directors determines the general risk policy and the risk appetite of the Bank. The Bank's Risk Committee defines risk policies and strategies, reviews all types of risks which the Bank is exposed to in quarterly meetings, monitors the implementation of the risk management strategies and brings the important risk issues to the attention of the Board. The ALCO, meeting weekly, is responsible for monitoring and managing any structural asset liability mismatch of the Bank, as well as monitoring and controlling liquidity risk and foreign currency exchange rate risk.

The CRC meets on a quarterly basis and is responsible for monitoring and evaluating the Bank's lending portfolio and determining principles and policies regarding credit risk management processes, such as loan approval, limit setting, rating, monitoring and problem management. When it comes to credit risks, the Committee is also responsible for regularly reviewing the credit limits determined by the Bank, keeping these risks under control by allocating new limits, and monitoring risky credit amounts by taking scenario analyses and defined credit limits into account. The Committee also updates and implements credit risk measurement criteria in accordance with changing circumstances and any possible requirements which may arise.

The MRC is responsible for implementing risk policies regarding both the trading book and the investment book and establishing relevant control systems. In addition, it defines certain limits and regularly reviews these in order to limit and minimize the potential adverse effects of market conditions on the Bank's profitability and economic value. The Committee provides recommendations to the Bank's Risk Committee with respect to the determination of methods to measure and limit risks arising from banking products, analyzes retroactive test results and performs efforts to support risk measurement methodologies by designing stress tests and alternative scenarios.

The ORC also meets on a quarterly basis and is responsible for reviewing the Bank's operational risks and defining the necessary actions to be taken to minimize these risks. In performing these studies, priority is given to the actions that must be taken to eliminate problems associated with the reporting of the Internal Control and Audit Board.

Working independently from the executive functions and reporting to the Board of Directors, the Risk Management Department is organized under three groups: market, credit and operational risk. Each group is responsible for identifying, measuring, monitoring, controlling and managing these relevant risks. The Department determines risk-based limits to be applied to the respective profit centers, by using the amount of shareholders' equity and risk limits as determined by the Board of Directors regarding trading, asset-liability management and the Bank's credit portfolios subject to financial risk. As part of the same process, the Department is also responsible for monitoring any limit breaches and providing necessary notifications to the Bank's Risk Committee and senior management.

### **Credit risk is the most crucial risk.**

Credit risk is defined as the potential loss arising from a borrower's inability to meet its financial obligations to the Bank.

Credit risk is the risk of the highest concern, accounting for approximately 75% of the balance sheet. Therefore, credit risk management policies were set up to ensure the independence and integrity of the risk evaluation practices. Another purpose of these policies and procedures is to ensure that all personnel who are involved in the decision making process share same views in similar matters and reach similar actions, if necessary. All credit risks which the Bank is subject to, either on-balance or off-balance, are monitored and managed individually and on a portfolio basis. In order to maintain the quality of the Bank's credit portfolio at a predefined level, the credit portfolio is analyzed on a regular basis and reported in terms of economic sectors, exposure, rating distribution, collateral structure, the volume of non-performing loans and other various aspects.

### **Ready for Basel II**

ABank is ready for the Basel II practices which will enter into effect in June 2011. In this context, improvements and arrangement were undertaken in the current system to set up a rating system which conforms to the criteria. Within the framework of the credit risk, efforts are under way to establish coherence with both the Standard method and Internal Rating-Based Approaches. An "Expected Loss" calculation is performed based on the data provided by the Bank's current credit rating and security assessment systems, while these values are predominantly used in the evaluation of branch performances.

Systematic work is being carried out to set up a credit database. The ultimate goal of the Basel II criteria is to pave the way for advanced internal rating methods, which will demonstrate the Bank's actual risks.

### **Market risk**

Market risk refers to the risk of any loss that may occur in the value of positions in trading accounts due to movements in interest rates, share prices and exchange rates. ABank calculates the legal capital requirement for market risk by using the standard method, which complies with the BRSA's regulations. Moreover, market risks associated with trading



# EVERY STAGE OF ABANK'S OPERATIONS IS STRUCTURED IN LINE WITH THE BANK'S PRINCIPLES OF RISK MANAGEMENT AND EVERY EMPLOYEE UNDERTAKES A COMMITMENT TO THOSE PRINCIPLES.

accounts are digitized and monitored on a daily basis through the Value at Risk (VaR) method. Measurements, which are performed using the exponentially weighted parametric, VaR, over the last 250 business days, constitute basis for the Bank's risk-based trading limits. The validity of the VaR model is monitored through retroactively applied test methodology. In this methodology, theoretical losses/gains, which are calculated in the VaR model, are compared to the real losses/gains the next business day and any exceeding amounts, if any, are monitored. Within the scope of the retroactive tests, where the actual daily P/L value in 2010 was compared to the VaR which had been projected on the previous day, no excessive amount was recognized.

## Structural interest rate risk

Market risks, which the Bank is exposed to through products such as credits and deposits that bear interest sensitivity despite being monitored in non-trading accounts are monitored as structural interest rate risks. In this manner, the Bank aims to keep changes in its economic value within the limits which have been determined based on its shareholders' equity, in the event that the Bank is subject to defined standard interest shocks. Duration/gap reports, which are used in the measurement and management of the structural interest rate risk, are drafted by placing those financial products that are monitored in non-trading accounts into the cash flow statements on an FX basis, according to the re-pricing periods or durations. All interest-sensitive balance and off-balance items, which are taken into account in these reports, are calculated by means of the cash flows based on the current values of performed financial transactions. The Assets-Liabilities Committee takes necessary action to maintain the net economic value and to create a stable income structure.

## Liquidity risk

The purpose of the Liquidity Risk Management Department is to prevent the sum of cash held by the Bank and the borrowing resources available to the Bank from falling to below a predefined ratio of the sum of deposits and other liabilities that necessitate creation of liquidity. The department aims to ensure that necessary precautions are taken in a timely and proper manner to tackle possible liquidity risks associated with cash-flow volatility caused by market conditions and/or the Bank's balance sheet structure. The Bank monitors its liquidity situation in TL and FX terms, as well as in terms of total liquidity. Moreover, the Bank's

liquidity status is monitored within the framework of the "Communiqué on the Measurement and Assessment of Bank's Liquidity Adequacy", which was published by the Banking Supervision and Regulation Agency on 1 November, 2006; while the Risk Management Department reports on the issue to the ALCO and the Market Risk Committee. In line with the demands of the Risk Committee, the Bank's liquidity is tested under various "stress" assumptions, while test results are notified to the Committee and the Board of Directors.

## Operational risk

An operational risk is defined as the possibility of a direct or indirect loss, caused by people, processes, systems and external factors. The Risk Management Department is responsible for defining, measuring and following up operational risks that fall under the risk definition, as well as establishing coordination of respective managerial initiatives. All respective units, particularly the Internal Control and Audit Committee, contribute to the efforts aimed at determining and eliminating the operational risks that arise during the Bank's operations. The compliance of services with relevant regulations and the Bank's current procedures and policies is followed closely. Records of events leading to monetary losses are stored in a database established with the aim of following up operational risks.

## Compliance Department (Legislation-fight against money laundering)

The Compliance Department was set up by members of the Audit Committee and reports directly to the Board. In Accordance with article 18 of the Regulations on the Internal Systems of Banks issued by the Banking Regulation and Supervision Agency on 1 November 2006, the Department performs compliance functions with respect to applicable laws, organizational standards, and ethical principles. The department ensures that processes, internal policies and rules are updated in accordance with changes in legislation, communicates such changes to employees and provides its views on new products and transactions before they are implemented. The Department is responsible for all of ABank's compliance, and works to continuously improve the compliance culture and awareness within ABank.

The Department Manager also serves as the AML Compliance Officer in accordance with Law No. 5549 on Compliance Program with Obligations Regarding Prevention of Laundering Proceeds of Crime and Financing Terrorism. In order to achieve

ABank's compliance with the regulations issued pursuant to Law No 5549, the staff of the Compliance Department;

- Develop policies and procedures within this scope, execute risk management and perform monitoring and control activities: The department uses developed software to conduct reviews of all transactions performed by the Bank during the previous day, based on 46 different scenarios, and thoroughly analyzes any suspicious transactions in the event of any matches,
- Organizes face-to-face and e-learning training sessions, follows up the results of the internal audit and training activities,
- Provides necessary coordination and communication with MASAK (the Financial Crimes Investigation Board).

The department reports its activities in the form of quarterly activity reports to the Audit Committee.

### **Business Development: Improvement in transaction processes and service quality**

The Business Development Department creates work flows, feasibility and cost efficiency analysis reports; improves and streamlines transaction processes and service quality; offers cost saving solutions; and monitors all work flows throughout every unit of the Bank.

The Department also sets forth system and procedural requirements and leads feasibility and conceptual work throughout the Bank. These functions are conducted in cooperation with the Information Technologies Department so as to coordinate work simplification and improve the functioning of the central operations departments and branches.

Within the framework of the adopted strategies in business development, priority is given to:

- coordinating all of the needs and projects of the branches and central operations relating to technology and organization;
- analyzing and improving the feasibility and cost efficiency of all of the Bank's work flows and infrastructure.

### **Human Resources: A team that reflects the team spirit**

ABank is a preferred employer in the financial services industry thanks to the implementation of the best human resources practices, its business environment, its performance assessment system and the career planning which it offers to its employees.

The Bank has a professional team guided by common sense, which possesses the shared qualities of devotion, ethical values and deeply rooted corporate culture.

ABank's HR policy aims to support the continuous development of its policies in line with the Bank's targets and strategies by means of performance evaluation, internal customer valuation and career planning systems.

ABank's human resource policy encompasses the following values:

- Delivering excellence to customers
- Unwavering commitment to honesty
- Upholding banking discipline
- Maintaining an environment in which success is rewarded
- Encouraging creativity
- Adhering to social responsibilities

ABank's Human Resources Department plays a strategic role for the Bank by laying the foundation upon which the various business elements cooperate to achieve the Bank's goals. The Department also executes modern HR programs that are based on success.

### **Recruitment**

ABank generally fills its vacancies at managerial levels internally. At the end of 2010, 88% of the Bank's managers had been promoted from within the Bank. In support of this approach, since 1994, ABank has been implementing "management trainee" programs for new university graduates, who are carefully selected. An increase in recruitment has been observed in parallel with the Bank's accelerating branching efforts and the establishment of the Retail Banking segment. In 2010, the Bank recruited 195 staff, who were hired primarily for the operations and marketing departments, to reach a total of 1,086 personnel. The turnover rate stood at 10.3%.

# ABANK HAS A PROFESSIONAL TEAM GUIDED BY COMMON SENSE, WHICH POSSESSES THE SHARED QUALITIES OF DEVOTION, ETHICAL VALUES AND DEEPLY ROOTED CORPORATE CULTURE.

Number of Personnel	2008	2009	2010
Head Office	240	255	295
Centralized operations	140	137	140
Branches	626	607	651
Total personnel	1,006	999	1086

Gender and Age	2008	2009	2010
Male staff	54%	53%	53%
Female staff	45%	47%	47%
Average age	33	34	34

Educational Background of Staff	2008	2009	2010
Post graduate degrees	96	91	76
University graduate	667	673	794
High school graduate	208	204	188
Primary school graduate	35	31	28
Number of personnel fluent in a foreign language	356	380	443
Total personnel	1,006	999	1,086

Average Seniority	2008	2009	2010
	4	5	5

## Performance evaluation

The Bank's performance evaluation system is structured to offer employees the opportunity for continuous development towards concrete and measurable goals. ABank's performance evaluation methodology considers individual, department, and overall Bank targets as an integrated whole. An Internal Service Evaluation assesses the effectiveness of exchanges between branches and central units and is an important tool in detecting areas of potential improvement in quality of service, teamwork, and coordination. The outcomes of performance evaluations are used in reaching decisions on promotions, which are made by the Bank's Personnel Committee.

## Training

ABank organizes comprehensive and intensive training programs for staff in all of its departments. The Bank attaches utmost priority to maximizing the knowledge and skills of its staff, and the Human Resources Department is instrumental in facilitating the relevant training programs. ABank's employees received nearly 33,210 hours of training in total, equating to an average of 32 hours per person. The personal satisfaction rate of the training program measured 4.5 out of 5. The HR Department organized 75 internal training programs throughout 2010.

## Working environment

The Bank's employees' level of satisfaction with the working environment directly affects the degree of efficiency of the staff. ABank is very conscientious when it comes to creating harmony and cooperation in this regard. Hierarchical divisions are shunned, doors are always open, and top managers are accessible to all. Each department and branch at ABank has the opportunity to assess the services it receives from the others under a system of cross evaluation, which also applies to the top management. Awarded the "Special Award for Personnel Relations" in 2001 by Management Center Turkey, ABank continues to work hard to help its employees connect closely on a personal and professional level.

## A-Club

A-Club is a platform that organizes regular social events during the course of the year and brings together the various members of the ABank family. A-Club was jointly founded by the Bank and its employees, and it serves as an important bridge linking professional and social life. A-Club is also a valuable medium for encouraging communication and interaction between the Bank's staff and various departments. A-Club organized 11 different social events in 2010.

## A highly loyal team

According to the results of the "employee loyalty questionnaire" held in 2010, the rate of employee turnover at ABank was just 10%, indicating that the Bank's personnel are relatively loyal, given that the average rate in the sector is 20%.

### Information Technology: An IT infrastructure which supports growth

Continuous upgrading and investment in IT systems are fundamental principles at ABank. The Bank's system base is platform and brand-independent and provides maximum flexibility, sophistication, and speed in the development of new applications and technology sub-structures. In today's banking environment, possessing secure and cutting-edge technology offers a critical competitive advantage, and ABank takes pride in maintaining up-to-date standards. Some examples of how ABank distinguishes itself include its internal development of internet services, a compact development platform for new software development, sound middleware and application administration and a relational database model.

In line with the growth initiative launched in 2010, ABank Information Technology focused on setting up the banking system infrastructure which supports this development. Within the framework of the 5-year strategic plan, all groups able to demonstrate growth in accordance with the Bank's projected growth were set up, and projects required by this structure were conducted.

#### New projects in 2010

##### Credit Application / Approval Workflow for Retail Banking

In order to increase efficiency and productivity in the Bank's credit application and approval process, the workflow system has been developed within the core banking application in coordination with the relevant parties in the Bank. This new application has an interface with the Scoring System, Negative file among others. Behavioral Scoring will also be supported by this system going forward.

Services concerning Bonus credit cards and the use of Garanti POS devices will be outsourced. However, efforts with respect to the integration process of the system will be carried out by the Bank.

##### New branch openings

The technological and system infrastructure and the related equipment were allocated to the 7 new branches opened in 2010.

40 new check scanning machines were procured and implemented in the branches to improve productivity in the operational areas.

##### System improvements

Retail banking-related modules in the existing core banking system have been re-engineered in line with business requirements. By doing so, considerable improvement has been achieved in the existing functionalities of our systems. In line with the Virtualization efforts, 64 servers have been virtualized, paving the way for considerable savings in the IT area. The Hard Disk space has been increased by 64 TByte, marking a substantial growth in the current storage area. MicroSoft SQL Servers have been upgraded to the MS 2008 version, an important step towards upgrading our processing platforms to the new versions.

##### Compliance and audit

A swift embargo system has been implemented, in line with the new BRSA regulations. For outgoing payment messages, the system checks the OFAC and other lists automatically.

The following features have been implemented in internet banking to better serve our clients:

- New design preparation for the Internet Banking Branch and arrangement of the demo according to a new design
- Forward-dated money transfer transactions
- Display of REPO information in the investment portfolio
- Launch of the display function for individual customers' payment orders, in line with what is offered to corporate customers
- Display of repurchase information
- Extension of the EFT time limit to 5:00PM, and the extension of FX buying/selling transaction and money transfer time limits to 10:00PM
- E-learning portal
- Ability to open FX deposit accounts
- Compulsory use of IBAN numbers in future-dated and regular EFT transactions from the Internet branch, as use of IBAN has been compulsory since July 1st, 2010

A series of initiatives are planned in 2011 to improve the banking system infrastructure in order to increase the technological support provided to organic growth.

# CONTINUOUS UPGRADING AND INVESTMENT IN IT SYSTEMS ARE FUNDAMENTAL PRINCIPLES AT ABANK.

## Our social contribution project: Corporate management training for SMEs

The social responsibility project, a training program aimed at SMEs launched with the slogan "Benim KOBİM Geleceğın Yıldızı" (My SME is the Star of the Future), was put in practice under the sponsorship of ABank.

In the project, which completed its first year, more than 800 SME managers in 6 cities (Eskişehir, Trabzon, Denizli, Kayseri, Samsun and Mersin) received their certificates from Boğaziçi University. Within the framework of the project, an average of 100-150 people attended the course, while a total of 80 hours of training was given over a 16 day period. The courses are planned to be held in 15 cities over three years.

Training sessions, which are organized with the cooperation between ABank and Boğaziçi University Lifetime Training Center, are prepared to provide SMEs with vital information, aiming to ensure that they gain the necessary managerial capabilities and knowledge to enable them to improve their performance, increase their efficiency and look to the future with more confidence. Having examined SMEs thoroughly, the Boğaziçi University Lifetime Training Center employed its own academicians to prepare individual training programs, which would take account of the necessity that SMEs' own processes need to be improved by SMEs themselves.

Such training programs were designed with the aim of ensuring the professional and personal development of high school and university graduates serving in managerial positions within SMEs. The training programs also aim to ensure that SMEs, which are rapidly developing in the world and in our country, possess the well-educated and qualified labor force they need.

## Our new communication campaign: The promise of happiness for our customers with "Happy Banking"

In research studies conducted among ABank's current customers, it was observed that 95% of the Bank's existing customers are quite satisfied with their banking services, with customer satisfaction above the sector averages. To this end, an advertisement campaign was launched with the slogan "Happy Banking", which aims to differentiate the Bank by underlining the ABank guarantee that customers who receive boutique services from the Bank's branches or other service channels will be happy at all times, thanks to the quality of its services.

## Perspective for 2011

In 2010, ABank initiated a number of major projects to gear up for the future.

The very first results attained in 2010 indicate that the Bank is on course to meet its 2015 targets. From 2011 onwards, ABank aims to expand its client portfolio and keep growing based on an approach focused on customer satisfaction, increasingly promoting the products and services offered in the retail, corporate and commercial banking segments.

Efficiency and effectiveness will remain the major issues on ABank's agenda in 2011, and the Bank will continue to be guided by prudent risk management in all of its banking activities. ABank's well-structured service delivery platform, competent staff and the constant support of its parent group will continue to produce and offer the best for its all stakeholders.

**Above all, ABank customers will continue to enjoy the very best service, delivered with the Happy Banking approach.**

# CORPORATE GOVERNANCE

ABank's management believes that an effective corporate governance system, within an individual company and across an economy as a whole, helps provide the confidence necessary for the proper functioning of a market economy. Therefore, the set of relationships among the Bank's management, its board, its shareholders and other stakeholders has been undergoing a restructuring process in line with the Principles of Corporate Governance set out by the OECD and the Turkish Capital Market Board (CMB).

ABank is committed to implementing accepted standards of corporate governance. Accordingly, all management procedures and practices depend on four pillars of corporate governance; i) Transparency, ii) Equality, iii) Responsibility and iv) Accountability. With the exception of information deemed to contain trade secrets and is not yet available to the public, ABank discloses information about the Bank, with or without financial content, in an accurate, thorough, rational, interpretable and accessible manner. In compliance with legal and regulatory requirements, ABank communicates information in a timely, reliable, consistent, and orderly fashion and distributes such information to the investment community. Comprehensive information on ABank can also be accessed through its regularly updated website ([www.abank.com.tr](http://www.abank.com.tr)).

The Accounting and Finance Group is responsible for procedural actions regarding investors (Capital Increases, AGM, etc), as well as for duly informing the public. Questions forwarded to the management by investors, except those regarding proprietary information, are answered immediately and appropriately. The Annual General Meeting (AGM) notice is provided via the media and internet, meeting all of the requirements stipulated by the CMB and related regulations. All shareholders are invited to attend the AGM. When the Board of Directors decides on the date of the AGM, the information is immediately communicated to the CMB and the İstanbul Stock Exchange (ISE). Shareholders may apply to attend the AGM. Information and guidance about procedures and voting may be obtained from ABank's branches, headquarters and its internet website. There are no privileged voting rights stated in the Articles of Association. No subsidiary owns shares in the Bank. It is possible to vote by proxy.

The processes and policies of ABank's management structure are designed to comply with the legal and regulatory framework and to provide clarity and transparency in decision-making and accountability. The Board of Directors has ten members, three of whom are independent. The Board of Directors formulates ABank's vision, mission, and short and long-term strategic objectives. The Board meets at least twice a month, where the Board of Directors measures the Bank's progress against its strategic objectives and evaluates performance. The annual budget of the Bank and its strategic plan are approved by the Board of Directors, which also follows up the budget and its actual implementation, receives information about variations from the budget, and follows up its decisions. The Board of Directors tracks strategic objectives, budget targets, and actual figures through internal and external audit systems. The Board also monitors various financial and non-financial indicators on a particular customer, branch, business unit, or general basis. The Board of Internal Auditors is responsible for submitting internal audit reports directly to the Board of Directors.

In compliance with Banking Law, ABank has established a Risk Committee. The Bank's Board members play an important role in the management of the Bank's risk exposure by developing strategies, policies, limit systems, and procedures through the activities of the Risk Committee. The Risk Committee is headed by an independent Board member. An independent Board member also heads the Audit Committee of the Board, bearing the responsibility of ensuring the accuracy of financial information provided to all stakeholders.

The Corporate Governance Committee was established in 2005 and is also headed by an independent Board member. The Committee monitors compliance.

## **ABANK'S MANAGEMENT BELIEVES THAT AN EFFECTIVE CORPORATE GOVERNANCE SYSTEM, WITHIN AN INDIVIDUAL COMPANY AND ACROSS AN ECONOMY AS A WHOLE, HELPS PROVIDE THE CONFIDENCE NECESSARY FOR THE PROPER FUNCTIONING OF A MARKET ECONOMY.**

The ultimate controlling shareholders of the Bank are announced in annual reports and on the Bank's internet website. ABank strives to maintain the highest standards by providing guidance to all its employees; as part of this effort, employees are guided and educated to conduct themselves within the standards of professional and ethical conduct. All employees are presented with the Ethical Code of the Turkish Banks Association and the Ethical Code of Anadolu Group before they start working, and all employees sign these codes as evidence of their knowledge of these rules. All applications regarding career planning, professional training, disciplinary rules, ethical codes, fringe benefits, and all other rights and employee-related issues are available to all staff on a closed circuit corporate portal, or "Intranet." The Intranet has also been set up to provide information to employees; all announcements have been transferred from a paper environment to an electronic site. In addition to cost cutting and efficient communications, the intranet aims to underscore the importance of a common corporate culture.

ABank's Board members, managers of all levels and employees are in a position to obtain insider information. ABank restricts those individuals in a position to obtain insider information from trading its equity shares. ABank places great emphasis on the management of relations with the Bank's stakeholders. Not only shareholders, but also potential investors, the public, regulatory bodies, customers, suppliers, employees and others are defined as stakeholders. Relations with customers and suppliers are carried out within the framework of ethical rules and in accordance with written procedures. All employees are aware that the most important means of creating an advantage over competitors is to provide the best service to customers and act accordingly. Employees endeavor to solve any customer problems, provided that they fall within the confines of general principles and the Bank's procedures, and take measures and exert every effort to prevent recurrence. The Bank has a Customer Complaints Division dedicated to customer relations, where all customer complaints are analyzed thoroughly and immediately by this department and resolved appropriately. Suppliers are evaluated by the Purchase Department.

ABank seeks to maximize its employees' competencies, efficiency, and satisfaction through its performance evaluation and career planning system. The Bank has a transparent and fair performance management system and reward system which encourages and supports high performance. Participation in management is always encouraged; the personal opinions of the staff on improvements to daily workload are collected through an evaluation system that is analyzed carefully. The Human Resources Unit is organized in conformity with the structures, requirements, and expectations of the other business units so as to support these units on all human resources issues. No complaints concerning discrimination have been received from employees. ABank is committed to the development of our society. The Bank's donation policy is defined in the Bank's Articles of Association. The Anadolu Foundation was established 30 years ago and is engaged primarily in education, health, the arts, and sport; it has completed a wide range of projects, including hospitals, health centers, schools, dormitory buildings, and sport complexes. While these have been donated to the state, free scholarships are granted to competent students in need of financial support. In 2005, the foundation completed the non-profit Anadolu Medical Center. All income generated from this contemporary health center will be channeled to meet education and research expenditures. At least 10% of the patients at the Anadolu Medical Center are treated free of charge. The Anadolu Medical Center provides seminars and organizes special programs to spread public awareness of free check-ups, patient education programs, first aid courses, and protective medication.

# Happy Banking at ABank!



**Anadolu Group is structured and primarily managed in five principal sectors; beer, soft drinks, automotive, financial services, retail and other operations, which include energy, tourism, consumer durables, IT, and healthcare services.**

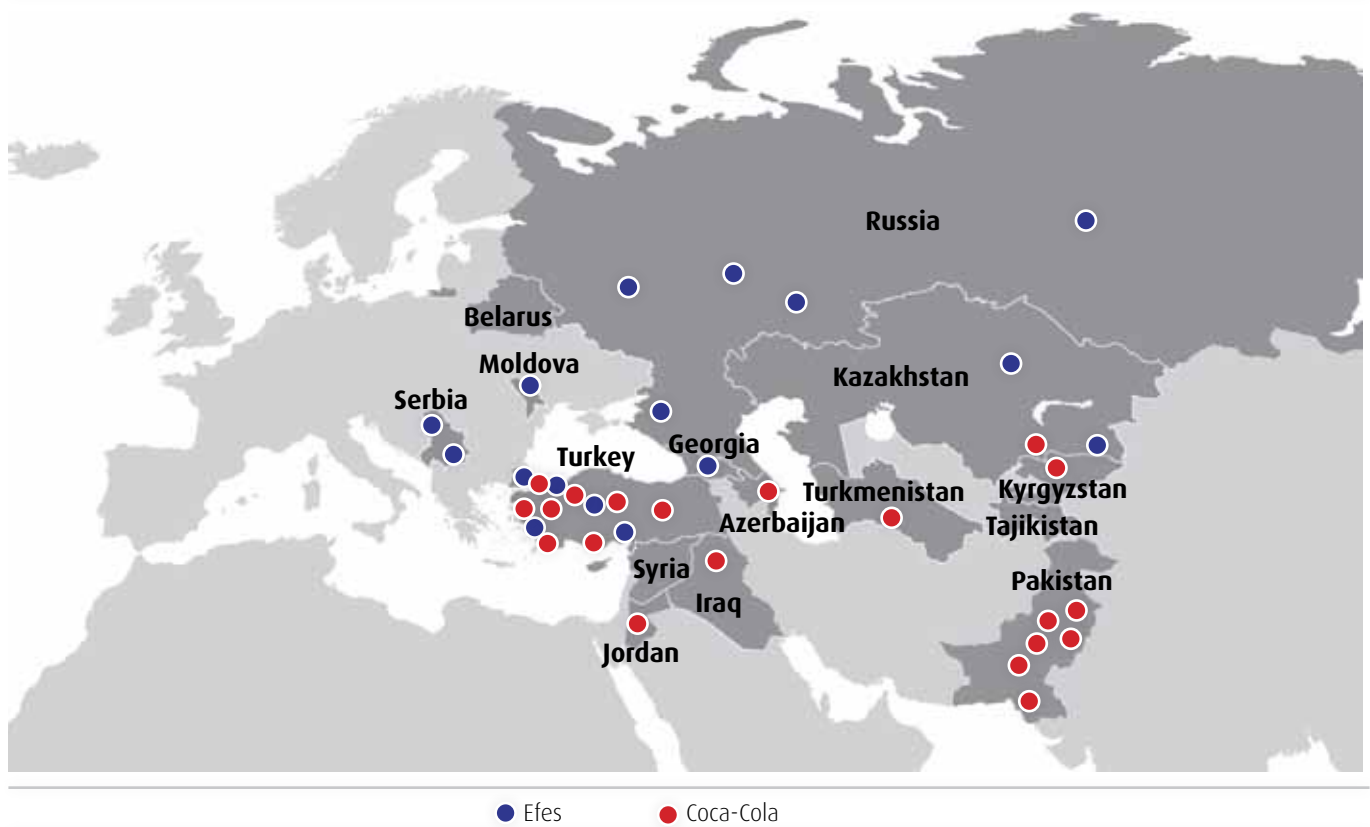


# ANADOLU GROUP IN BRIEF



ANADOLU GROUP

Anadolu Group's Extensive Operating Geography



Turkey Operations (as of March 2011)

Business	Market Share	Market Position
Beer	88%	1
Coca-Cola	69%	1
Light Trucks	47%	1
Midibuses	32%	2
Wood-cased pencils	75%	1
Olive oil (Retail)	32%	1

International Operations (as of March 2011)

Country	Business	Market Share	Market Position
Russia	Beer	11%	4
Kazakhstan	Beer	45%	1
Kazakhstan	Coca-Cola	34%	1
Moldova	Beer	n.a.	1
Georgia	Beer	n.a.	1
Azerbaijan	Coca-Cola	56%	1
Jordan	Coca-Cola	12%	2
Pakistan	Coca-Cola	29%	2
Syria	Coca-Cola	9%	2
Kyrgyzstan	Coca-Cola	n.a.	1
Turkmenistan	Coca-Cola	n.a.	n.a.
Iraq	Coca-Cola	n.a.	n.a.

## **THE GROUP HAS STRONG EXPERTISE IN WORKING IN PARTNERSHIP WITH GLOBALLY REPUTABLE COMPANIES AND BRANDS, SUCH AS COCA-COLA, HEINEKEN, MILLER, BECK'S, FOSTER'S, ISUZU, KIA, LADA, GEELY, LOMBARDINI, HISENSE, FABER-CASTELL, MCDONALD'S AND JOHNS HOPKINS.**

Anadolu Group ("Group") was founded in the early 1950s by the Yazıcı and Özilhan families, which are jointly the major shareholders of all Group operations through their respective holding companies, Yazıcılar Holding A.Ş. and Özilhan Sınai Yatırım A.Ş.

The Group is structured and primarily managed in five principal sectors; beer, soft drinks, automotive, financial services, retail and other operations, which include energy, tourism, consumer durables, IT, and healthcare services. The Group has strong expertise in working in partnership with globally reputable companies and brands, such as Coca-Cola, Heineken, Miller, Beck's, Foster's, Isuzu, Kia, Lada, Geely, Lombardini, Hisense, Faber-Castell, McDonald's and Johns Hopkins.

The combined revenues of the Group during the 2010 full year totaled approximately USD 5.8 billion. A total of around 23,000 employees work in the Group.

The flagship company of Anadolu Group's beer operations is Anadolu Efes, Biracılık ve Malt Sanayi A.Ş. (Anadolu Efes) established in 2000. Anadolu Efes came into existence through the merger of five breweries and two malt factories, the first of which was established in 1969. Anadolu Efes is currently the leader in the Turkish beer market with an 89% market share and also runs international beer operations through its subsidiary Efes Breweries International (EBI), based in the Netherlands. Anadolu Efes operates in 5 countries (Turkey, Russia, Kazakhstan, Moldova, Georgia) with 14 breweries commanding a total beer capacity of 35 million hectoliters, and 7 distilleries with a total malt capacity of 290,000 tons. Anadolu Efes' sales volumes totaled 43.2 mhl in 2010, marking YoY growth of 11%, while recording consolidated revenues of TL 4.7 billion, with YoY growth of 12%.

44% of the shares in Anadolu Efes are listed on the İstanbul Stock Exchange (ISE) and the market capitalization (Mcap) of Anadolu Efes at the end of 2010 stood at approximately USD 6.8 billion.

Coca-Cola İçecek A.Ş. (CCI), which is 50.3% owned by Anadolu Efes, runs Coca-Cola bottling operations in 10 countries (Turkey, Kazakhstan, Azerbaijan, Pakistan, Kyrgyzstan, Tajikistan, Turkmenistan, Jordan, Iraq and Syria) with 20 production facilities yielding a total bottling capacity of 980 million unit cases. CCI generated a total sales volume of 665 million unit cases, marking YoY growth of 13%, while recording consolidated revenues of TL 3.2 billion, with YoY growth of 18%.

CCI is listed on the ISE with a market capitalization of approximately USD 3.3 billion at the end of 2010. Anadolu Etap Tarım Ürünleri A.Ş., which is 33.3% owned by Anadolu Efes, joined Anadolu Group in 2009. The Company is one of the largest manufacturers of fruit juice ingredients in Turkey and currently fills Cappy branded fruit juice and nectars for Coca-Cola. The Company also operates in the food and beverages industry, mainly in Turkey, Europe, Russia, the CIS and the Middle East with a wide range of tailor made products.

Anadolu Group has been active in the automotive sector since the early 1960s. In the automotive sector, Anadolu Group imports and markets KIA, Lada and Geely passenger cars and light commercial vehicles, and Coopertires and Avon branded tires in Turkey. The Group also performs operational fleet leasing operations, with an overall fleet size of 7,000 vehicles.

Anadolu Group is also a manufacturer in the automotive sector. Anadolu Isuzu Otomotiv Sanayi ve Ticaret A.Ş. (Anadolu Isuzu) is one of the leading medium-size coach manufacturing companies in Europe whose major shareholders are the Anadolu Group from Turkey, and Isuzu Motors and Itochu Co. from Japan. Its main fields of operation are the production and marketing of light duty trucks and midibuses. Since the establishment of the Company in 1984, more than 80.000 vehicles have been manufactured in accordance with the Isuzu Motors license agreement.

## ANADOLU GROUP IN BRIEF

Through Anadolu Motor, Anadolu Group also produces generators, engines and spare parts, and imports and distributes Lombardini and Honda branded engines and applications, LS branded tractors and Gallignani branded balers.

Under the finance division, the Group also operates a leasing company (ALease) and a brokerage firm (AYatırım), in addition to ABank.

Anadolu Group’s retail operations as a manufacturer include the import, production and export of stationery in partnership with Faber-Castell (Adel Kalemcilik), and a leading production company in the edible oils sector with Komili and Kirlangıç brands in Turkey (Ana Gıda).

As an importer and distributor, the Group has held exclusive operating rights of McDonald’s in Turkey since 2005, and at the end of 2010, McDonald’s was operating at over 156 restaurants with over 4,000 employees.

Anadolu Group’s other major operation in the retail sector is the import and marketing of Hisense-branded television sets. The Group also operates in the IT and tourism sectors.

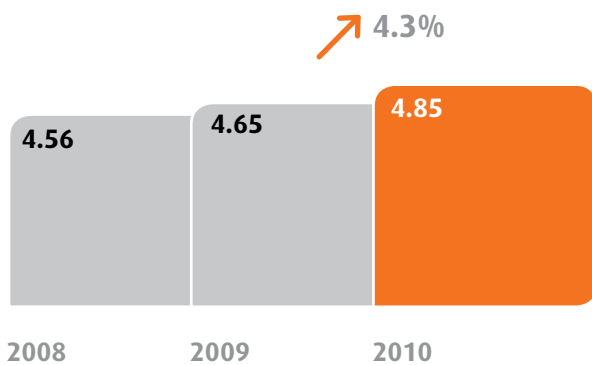
On the other hand, the Anadolu Group is strategically targeting to be one of the leading players in the energy sector. The Group is working on a 1,200 MW capacity coal-powered energy plant in Gerze in Turkey’s Black Sea region and an 85.5 MW hydro-energy plant investment in Paravani in Georgia. The Anadolu Group has also formed a consortium with Doğuş Holding and Doğan Holding in 2006 for the development of the 120 MW Aslançık hydro-energy plant in the Black Sea region. Recently, the Group is also working on the development of wind farms in the Aegean region.

Anadolu Group pays special attention on corporate social responsibility projects. The Anadolu Education and Social Assistance Foundation has created more than 40 projects in social fields, such as education and healthcare, since its establishment in 1979. It also grants scholarships to around 850 students every year; a total of 15,000 scholarships have been granted so far.

### Net Sales

(USD billion)

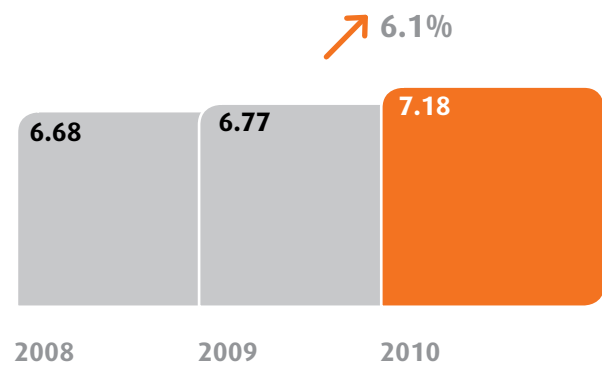
Change **+4.3%**



### Asset Size

(USD billion)

Change **+6.1%**



# THE COMBINED REVENUES OF ANADOLU GROUP DURING THE 2010 FULL YEAR TOTALED APPROXIMATELY USD 5.8 BILLION. A TOTAL OF AROUND 23,000 EMPLOYEES WORK IN THE GROUP.

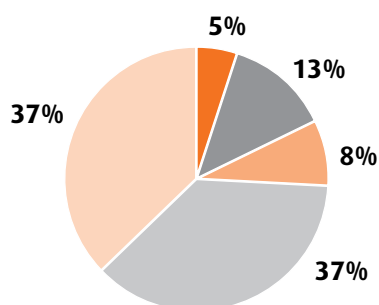
The Anadolu Medical Center (İstanbul) has exclusive affiliation with the Johns Hopkins Medicine of Baltimore, in the USA, and has the largest and technologically most advanced healthcare investment in the region.

Anadolu Group has also provided some major contributions to sport. Established in 1976, the Efes Pilsen Sports Club was the first Turkish basketball team to bring the European Title to Turkey and the first and only Turkish basketball team to qualify in the semi-finals in the Euroleague. Free basketball training schools, organized by the Efes Pilsen Sports Club in collaboration with the General Directorate of Youth and Sports, have raised many nationwide and some worldwide famous players.

Anadolu Group supports arts and culture with organizations of music festivals and sponsorship of various projects.

## Breakdown of Revenues, 12M2010

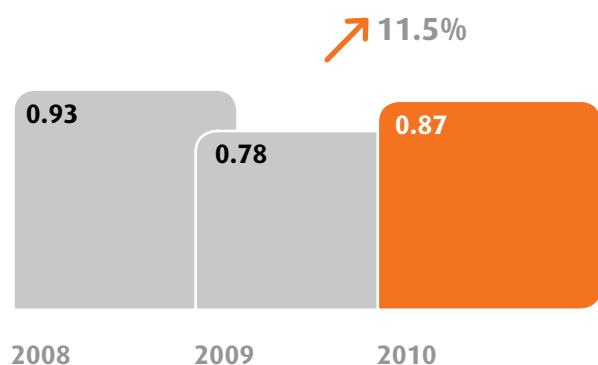
Finance Automotive Retail  
Beer Soft Drinks



## EBITDA

(USD billion)

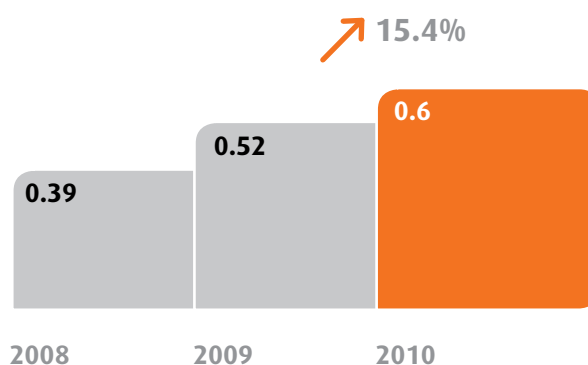
Change **+11.5%**



## Profit Before Tax

(USD billion)

Change **+15.4%**



# SUBSIDIARIES

## ABank Financial Subsidiaries

### AYatırım

AYatırım is a wholly-owned subsidiary of ABank and acts as a boutique investment bank specialized in asset management and brokerage services for domestic and international clients in the Turkish equity and derivatives markets. Founded in 1997, AYatırım is a member of the Istanbul Stock Exchange, the Turkish Derivatives Exchange and is regulated by the Capital Markets Board of Turkey.

The Company had a market share of 0.6% in the overall trading volume of the Istanbul Stock Exchange a share of 0.7% in the Turkish derivatives market in 2010.

The Asset Management Unit manages six ABank domestic mutual funds and Alternatif Yatırım Ortaklığı (an investment trust company) which is listed on the ISE with a total mutual fund/closed fund size of around USD 60 million at the end of 2010. A discretionary portfolio management service is offered to large-scale investors. The total fund size held by individual/institutional investors totaled USD 17 million in December, 2011.

AYatırım distributes its products through five branches, a call center and the Internet. ABank branches also act as agents of AYatırım.

The Company's largest shareholder is ABank, with a 99.99% share, while the Company's paid-in capital was TL 8.5 million as of 31 December, 2010.

### Alternatif Yatırım Ortaklığı

Alternatif Yatırım Ortaklığı is an ABank subsidiary established in 1995. Operating under the regulatory framework of the Capital Markets Board, the Company's main activities involve the management of stock, repo and other securities portfolios on domestic exchanges. Alternatif Yatırım Ortaklığı is Turkey's 5th largest investment trust and commands a 5.4% market share of assets managed by investment trusts in Turkey.

The Company's paid-in capital stood at TL 22.3 million as of December 31, 2010, with 95.96% of its shares trading on the Istanbul Stock Exchange (ISE).

## Anadolu Group Financial Subsidiaries

### Alease

Founded in 1997, Alease is among the leading companies of the leasing sector. With its young and dynamic teams, proactive business processes and management philosophy, the Company offers high quality financial leasing services to a well-diversified clientele. Having made it a principle to adhere to the highest business ethics in its operations, Alease enjoys a respected presence in the market through flexible solutions developed in line with the expectations of its customers.

Small- and micro-sized enterprises form the backbone of Alease's client portfolio. Tailor-made products, specially-designed campaigns through vendors and high-quality services provided by its proficient staff are Alease's strongholds to reach this segment.

The Company maintains a vast customer portfolio that covers construction, transport, textile, real estates and office equipments.

In 2010, Alease's business volume upped by a remarkable 27% and reached USD 88 million. The Company's net lease receivables and total assets stood at USD 163 and USD 197 million respectively in the year 2010. As of year-end 2010 Alease employed a total of 56 people.

The synergy captured with ABank in 2010 is anticipated to continue on a growing scale in the coming years.

ALTERNATİFBANK A.Ş.

**CONSOLIDATED FINANCIAL STATEMENTS  
TOGETHER WITH AUDITOR'S REPORT  
31 DECEMBER 2010**

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Alternatifbank A.Ş.

We have audited the accompanying consolidated financial statements of Alternatifbank ("the Bank") and its subsidiaries ("the Group") which comprise the consolidated balance sheet as of 31 December 2010 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement 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 misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's 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 ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from 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 the auditor's 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, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

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

### Other matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2009 were audited by another auditor whose report dated 22 March 2010 expressed an unqualified opinion.

Başaran Nas Bağımsız Denetim ve

Serbest Muhasebeci Mali Müşavirlik A.Ş.

a member of

PricewaterhouseCoopers



Talar Gül, SMMM

Partner

Istanbul, 21 March 2011



# ALTERNATİFBANK A.Ş.

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## CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

	Note	2010	2009
<b>ASSETS</b>			
Cash and balances with the Central Bank of Turkey	6	230,359	213,702
Loans and advances to banks	7	70,603	74,774
Financial assets held for trading			
- Trading securities	8	207,632	27,235
- Derivative financial instruments	9	4,889	7,237
Loans and advances to customers		3,231,021	2,721,088
Investment securities			
- Available-for-sale	11	182	31,775
- Held-to-maturity	11	391,159	475,337
Other intangible assets	12	2,526	2,551
Property and equipment	13	19,295	16,879
Deferred income tax assets	18	9,443	7,214
Other assets	14	120,030	75,100
<b>Total assets</b>		<b>4,287,139</b>	<b>3,652,892</b>
<b>LIABILITIES</b>			
Deposits from banks	15	309,062	139,186
Due to customers	16	2,448,372	2,510,536
Other borrowed funds	17	642,594	397,223
Obligations under finance leases		991	2,278
Derivative financial instruments	9	15,168	8,688
Current income taxes payable	18	9	447
Other provisions	19	10,871	12,488
Retirement benefit obligations	20	3,907	3,000
Other liabilities	21	201,318	117,325
Subordinated debt	17	162,374	-
<b>Total liabilities</b>		<b>3,794,666</b>	<b>3,191,171</b>
<b>EQUITY</b>			
Share capital	22	300,000	300,000
Share premium	22	85	85
Other reserves	23	8,017	5,410
Retained earnings	23	164,535	138,704
<b>Equity attributable to shareholders of the Parent</b>		<b>472,637</b>	<b>444,199</b>
Non-controlling interests in equity		19,836	17,522
<b>Total equity</b>		<b>492,473</b>	<b>461,721</b>
<b>Total liabilities and equity</b>		<b>4,287,139</b>	<b>3,652,892</b>

The accompanying notes set out on pages 53 to 106 form an integral part of these consolidated financial statements.

## CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

	Note	2010	2009
Interest income	24	346,272	474,825
Interest expense	24	170,300	232,942
<b>Net interest income</b>		<b>175,972</b>	<b>241,883</b>
Fee and commission income	25	35,078	30,938
Fee and commission expense	25	2,938	2,383
<b>Net fee and commission income</b>		<b>32,140</b>	<b>28,555</b>
Foreign exchange gains and losses, net		4,523	(7,908)
Trading gains and losses, net	26	(27,285)	(22,833)
Gains/losses from investment securities, net	26	356	6,208
Other operating income		14,399	7,808
<b>Operating income</b>		<b>(8,007)</b>	<b>(16,725)</b>
Impairment losses on loans and credit related commitments, net	28	(29,319)	(72,208)
Other provisions		(697)	(50)
Other operating expenses	27	(134,179)	(103,640)
<b>Profit before income tax</b>		<b>35,910</b>	<b>77,815</b>
Income tax expense	18	(4,870)	(13,709)
<b>Profit for the year</b>		<b>31,040</b>	<b>64,106</b>
<b>Attributable to:</b>			
Equity holders of the Bank		28,726	60,116
Non-controlling interest		2,314	3,990
		<b>31,040</b>	<b>64,106</b>
Basic earnings per share attributable to the equity holders of the Bank (expressed in TL per thousand share)	2.23	0.09575	0.20039

The accompanying notes set out on pages 53 to 106 form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

	Note	2010	2009
<b>Profit for the year</b>		<b>31,040</b>	<b>64,106</b>
Foreign exchange gain/loss		-	6
<b>Net gains on available- for sale financial assets, net of tax</b>			
- Unrealised net gains arising during the year, before tax		-	(2,582)
- Net change in fair value of financial assets transferred to income statement		(361)	(465)
<b>Income tax relating to components of other comprehensive income</b>		<b>73</b>	<b>493</b>
<b>Other comprehensive income for the period, net of tax</b>		<b>(288)</b>	<b>(2,548)</b>
<b>Total comprehensive income for the year</b>		<b>30,752</b>	<b>61,558</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the parent entity (total)		28,438	57,568
Non-controlling interests (total)		2,314	3,990

The accompanying notes set out on pages 53 to 106 form an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

	Note	Attributable to equity holders of the Bank				Total	Non-cont. interest	Total equity
		Share capital	Share premium	Other Reserves	Retained earnings			
<b>Balance at 1 January 2009</b>		<b>300,000</b>	<b>83</b>	<b>4,999</b>	<b>81,193</b>	<b>386,275</b>	<b>14,049</b>	<b>400,324</b>
Net change in available for sale investments, net of tax	23	-	-	(2,548)	-	(2,548)	-	(2,548)
Net income recognised directly in equity		-	-	(2,548)	-	(2,548)	-	(2,548)
Profit for the year		-	-	-	60,116	60,116	3,990	64,106
Total recognised income for the year		-	-	(2,548)	60,116	57,568	3,990	61,558
Transfer to statutory reserves		-	-	2,947	(2,947)	-	-	-
Purchase from non-controlling interests		-	2	12	342	356	(517)	(161)
<b>Balance at 31 December 2009</b>		<b>300,000</b>	<b>85</b>	<b>5,410</b>	<b>138,704</b>	<b>444,199</b>	<b>17,522</b>	<b>461,721</b>
Net change in available for sale investments, net of tax	23	-	-	(288)	-	(288)	-	(288)
Net income recognised directly in equity		-	-	(288)	-	(288)	-	(288)
Profit for the year		-	-	-	28,726	28,726	2,314	31,040
Total recognised income for the year		-	-	(288)	28,726	28,438	2,314	30,752
Transfer to statutory reserves		-	-	2,895	(2,895)	-	-	-
<b>Balance at 31 December 2010</b>		<b>300,000</b>	<b>85</b>	<b>8,017</b>	<b>164,535</b>	<b>472,637</b>	<b>19,836</b>	<b>492,473</b>

The accompanying notes set out on pages 53 to 106 form an integral part of these consolidated financial statements.

## CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

	Note	2010	2009
<b>Cash flows from operating activities</b>			
Interest received		335,908	401,307
Interest paid		(170,299)	(204,604)
Fees and commissions received		31,029	36,523
Income from banking services		4,049	3,877
Trading income		5,286	(1,119)
Recoveries of loans previously written off		(35,692)	48,290
Fees and commissions paid		(2,937)	(8,102)
Cash payments to employees and other parties		(75,648)	(70,253)
Cash received from other operating activities		21,418	7,808
Cash paid for other operating activities		(49,481)	(33,925)
Taxes paid		(4,872)	(8,034)
<b>Cash flows from operating profits before changes in operating assets and liabilities</b>		<b>58,761</b>	<b>171,768</b>
<b>Changes in operating assets and liabilities:</b>			
Trading securities		(180,396)	10,188
Loans and advances		(509,933)	(404,194)
Other assets		(44,840)	15,864
Deposits from other banks		(82,594)	(17,854)
Deposits		(61,523)	(158,420)
Other money market deposits		214,450	84,101
Other liabilities		59,291	(38,824)
Assets classified as held for sale		28	(22,504)
<b>Net cash (used in) operating activities</b>		<b>(605,517)</b>	<b>(531,643)</b>
<b>Cash flows from investing activities</b>			
Purchases of available for sale securities		(1)	(329,191)
Proceeds from sale and redemption of available-for-sale securities		31,594	369,735
Purchases of held to maturity securities		(217,202)	(270,273)
Redemption of held to maturity securities		310,384	-
Purchases of premises and equipment		(8,169)	(1,121)
Purchase of intangible assets		(962)	(1,191)
<b>Net cash from/(used in) investing activities</b>		<b>115,644</b>	<b>(232,041)</b>
<b>Cash flows from financing activities</b>			
Proceeds from/(payments for) funds borrowed		407,742	(136,453)
Payments of finance lease liabilities		(1,287)	(1,725)
<b>Net cash from/(used in) financing activities</b>		<b>406,455</b>	<b>(138,178)</b>
<b>Net increase in cash and cash equivalents</b>		<b>(24,657)</b>	<b>(730,094)</b>
Effects of foreign exchange-rate changes on cash and cash equivalents		721	(24,424)
<b>Cash and cash equivalents at beginning of the year</b>	<b>5</b>	<b>217,576</b>	<b>972,094</b>
<b>Cash and cash equivalents at end of the year</b>	<b>5</b>	<b>193,640</b>	<b>217,576</b>

The accompanying notes set out on pages 53 to 106 form an integral part of these consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 1 - GENERAL INFORMATION

Alternatifbank A.Ş. (a Turkish joint stock company - "the Bank") was incorporated in Istanbul on 6 November 1991 and started operations in February 1992, The Bank was acquired by Anadolu Group in 1996, Certain shares of the Bank, representing 4.16% of the total, are listed on the Istanbul Stock Exchange ("ISE").

The registered office address of the Bank is at Cumhuriyet Caddesi No: 46 Elmadağ/Istanbul.

The consolidated financial statements of the Bank were authorized for issue by the management on 21 March, 2011. The ultimate parents of the Bank are Yazıcılar Holding A.Ş., Özilhan Sinai Yatırım A.Ş. and Anadolu Endüstri Holding A.Ş. The Bank is a member of Anadolu Group.

For the purposes of the consolidated financial statements, the Bank and its consolidated subsidiaries are referred to as "the Group".

The operations of the Group consist of banking, brokerage and portfolio management in capital markets conducted mainly with local customers.

The Bank provides banking services through 53 (2009: 46) branches in Turkey.

The subsidiaries and the Bank's shareholding included in consolidation and their shareholding percentages at 31 December 2010 and 2009 are as follows:

	Place of Incorporation	Effective shareholding % 2010	Effective shareholding % 2009
Alternatif Yatırım A.Ş. <sup>(1)</sup>	İstanbul/Turkey	99.99	99.99
Alternatif Yatırım Ortaklığı A.Ş. <sup>(2)</sup>	İstanbul/Turkey	52.60	52.60

The principal activities of the consolidated subsidiaries are as follows:

<sup>(1)</sup> Alternatif Yatırım A.Ş. renders brokerage and investment banking services to customers in line with the rules of the Capital Market Board of Turkey.

<sup>(2)</sup> Alternatif Yatırım Ortaklığı A.Ş. is a closed ended mutual fund managing portfolios which are made up of the capital market instruments according to the rules of the related regulation and the Capital Market Law. Alternatif Yatırım Ortaklığı A.Ş. is a subsidiary since the Bank has the power to govern the financial and operating policies of such subsidiary under a statute, to appoint or remove the majority of the members of the board of directors and to cast the majority of votes at the meetings of board of directors. The Bank holds also a golden share which leads to full control. The Bank applied entity concept method for the changes in ownership interests in this subsidiary. Therefore; where there is a subsequent increase in the ownership interest in this subsidiary, the carrying amount of the non-controlling interest is adjusted to reflect the change in its interest in the subsidiary's net assets. The difference between the amount by which the non-controlling interest is so adjusted and the consideration paid, if any, is recognized directly in equity and attributed to equity holders of the Bank. No goodwill is recognized on a such transaction.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### 2.1 Basis of Presentation of Financial Statements

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale securities, financial assets at fair value through profit and loss and derivative financial instruments that have been measured at fair value.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

The Bank and its subsidiaries are incorporated in Turkey maintain their books of account and prepare their statutory financial statements in accordance with the regulations on accounting and tax legislation in Turkey. The accompanying financial statements differ from the financial statements prepared for statutory purposes in that they reflect certain adjustments, appropriate to present the financial position, results of operations and cash flows in accordance with IFRS, which are not recorded in the accounting books of Group's entities.

In the accompanying financial statements, certain reclassifications are made to prior year financial statements for comparative purposes.

### 2.2 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and all its subsidiaries, drawn up to 31 December 2010.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies so as to benefit from its activities. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital and is able to govern the financial and operating policies of an enterprise so as to benefit from its activities. The Bank also consolidates a subsidiary in which it has less than 50% shareholding since it has power to govern the financial and operating policies of such subsidiary under a statute, to appoint or remove the majority of the members of the board of directors and to cast the majority of votes at the meetings of board of directors.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent Bank, using consistent accounting policies.

The equity and net income attributable to minority shareholders' interests are shown separately in the consolidated balance sheet and income statement, respectively.

All intra-group balances, transactions and unrealized gains on intra-group transactions are eliminated including inter-company profits and unrealized profits and losses. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

### 2.3 Use of Estimates and Judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the periods in which they become known. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in related accounting policies.

### 2.4 Functional and Presentation Currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

The consolidated financial statements are presented in TL, which is the Company's functional and the Group's presentation currency.

### 2.5 Foreign Currency Transactions and Translation

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognized in profit or loss in the period in which they arise.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### 2.6 Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings	50 years
Furniture and fixtures and motor vehicles	5 years
Office equipment	5 years
Leasehold improvements	5 years, or over the period of the lease if less than 5 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year end. The carrying values of premises and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets of cash generating units are written down to their recoverable amount. The recoverable amount is defined as the amount that is the higher of the asset's fair value less costs to sell and value in use. Impairment losses are recognized in the income statement. There is no impairment recorded related to premises and equipment.

An item of premises and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognizing of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

### 2.7 Intangible Assets

Intangible assets acquired separately from a business are capitalized at cost. Following initial recognition intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets with finite lives are amortized on a straight-line basis over the best estimate of their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. There is no impairment recorded related to intangible assets. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. Patents and licenses mainly relate to software and were amortized over their useful economic lives of 5 years. Development costs for software were amortized over their useful economic useful lives of 5 years. There are no intangible assets with indefinite useful lives.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

### 2.8 Intangible Assets

Investment properties are stated at cost less accumulated depreciation and any impairment in value. Investment properties are depreciated on a straight-line basis over the estimated useful live which is 50 years.

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

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by the commencement of owner-occupation or commencement of development with a view to sale.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### 2.9 Investments and Other Financial Assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments and available-for-sale financial assets. When financial assets are recognized initially, they are measured at fair value. The Group determines the classification of its financial assets at initial recognition.

All regular way purchases and sales of financial assets are recognized on the settlement date i.e. the date that the asset is delivered to or by the Group. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets i.e. for assets carried at cost or amortized cost; change in value is not recognized.

#### Financial assets at fair value through profit or loss

Financial assets classified as held-for-trading are included in this category. Trading securities are securities, which were either acquired for generating a profit from short term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short term profit taking exist. Derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Gains or losses on investments held-for-trading are recognized in income.

#### Held- to- maturity securities

Non-derivative financial assets with fixed or determinable payments and fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investments intended to be held for an undefined period are not included in this classification. The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgments. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances - for example selling an insignificant amount close to maturity - it will be required to classify the entire class as available- for-sale. The investments would therefore be measured at fair value; not amortized cost.

Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process. Interest earned with holding held to maturity securities is reported as interest income.

#### Available- for- sale securities

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three other categories. After initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses on re-measurement to fair value are recognized as a separate component of equity until the investment is derecognized, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. However, interest calculated on available-for-sale financial assets using effective interest method is reported as interest income.

Interest earned on available-for-sale investments is reported as interest income. Dividends received are included in dividend income, if any.

For investments that are actively traded in organized financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment. Equity securities for which fair values cannot be measured reliably are recognized at cost less impairment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Such assets are carried at amortized cost using the effective interest method less any impairment in value. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest earned on such loans and receivables is reported as interest income.

### Repurchase and Resale Transactions

The Group enters into sales of securities under agreements to repurchase such securities at a fixed price at a fixed future date. Such securities, which have been sold subject to a repurchase agreement ('repos'), are recognized in the balance sheet and are measured in accordance with the accounting policy of the security portfolio which they are part of. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreement using the effective interest method. Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as loaned securities when the transferee has the right by contract or custom to sell or re-pledge the collateral. The counterparty liability for amounts received under these agreements is included in other money market deposits.

Securities purchased with a corresponding commitment to resell at a fixed price at a specified future date ('reverse repos') are not recognized in the balance sheet, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in other money market placements. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement using the effective interest method.

### Netting off Financial Assets and Liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

### Recognition and Derecognition of Financial Instruments

The Group recognizes a financial asset or financial liability in its balance sheet when and only when it becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) when the rights to receive cash flows from the asset have expired; or while retaining the right to receive cash flows from the asset the Group has also assumed an obligation to pay them in full without material delay to a third party; or the Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has transferred the control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of the consideration that the Group could be required to repay.

The Group derecognizes a financial liability when the obligation under the liability is discharged or cancelled or expires. When an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### 2.10 Impairment of Financial Assets

#### Assets carried at amortized cost

In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated amounts recoverable from a portfolio of loans and individual loans and held to maturity investments. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- a) Significant financial difficulty of the issuer or obligor;
- b) A breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;
- c) The Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- d) It becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- e) The disappearance of an active market for that financial asset because of financial difficulties; or
- f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - i) Adverse changes in the payment status of borrowers; or
  - ii) National or local economic conditions that correlate with defaults on the assets in the group of financial assets.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured based on the difference between the asset's carrying amount and the estimated recoverable amount. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized in the income statement. The estimated recoverable amount of a collateralized financial asset is measured based on the amount that is expected to be realized from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Loans with principal and/or interest overdue for more than 90 days are considered as non-performing and are assessed for impairment.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of impairment loss is recognized in income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of its recoverable amount. There is no impairment recorded related to assets carried at cost.

### Available-for-sale financial assets

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the income statement. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

### 2.11 Cash and Cash Equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash and balances with the Central Bank of Turkey, deposits with banks and other financial institutions and other money market placements with an original maturity of three months or less.

### 2.12 Interest - bearing Deposits and Borrowings

All deposits and borrowings are initially recognized at the fair value of consideration received less directly attributable transaction costs. After initial recognition interest-bearing deposits and borrowings are subsequently measured at amortized cost using the effective interest method. Gains or losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

### 2.13 Employee Benefits

#### Defined Benefit Plans

In accordance with existing social legislation in Turkey, the Group is required to pay lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

Such defined benefit plan is unfunded. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method. All actuarial gains and losses are recognized in the income statement.

#### Defined Contribution Plans

For defined contribution plans the Group pays contributions to the Social Security Institution of Turkey on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

### 2.14 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, 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. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### 2.15 Share Capital

Share capital is recognized at the nominal amount and amounts received in excess of the par value are recognized in share premium account. Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction.

### 2.16 Leases

#### Finance leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are charged directly against income. Capitalized leased assets are depreciated over the estimated useful life of the asset.

#### Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lesser by way of penalty is recognized as an expense in the period in which the termination takes place.

### 2.17 Income and Expense Recognition

Interest income and expense are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate of the loan. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts. Asset management fees and custody service fees that are continuously provided over an extended period of time are recognized ratably over the period service is provided. Fee for bank transfers and other banking transaction services are recorded as income when collected.

Loans with principal and/or interest overdue for more than 90 days are considered as non-performing and interest thereon is not recognized until collection.

### 2.18 Income Tax

Tax expense/(income) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred tax.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

### Deferred tax

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except for the taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilized:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and recognized to the extent it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities, and deferred taxes related to the same taxable entity and the same taxation authority.

Income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.

### 2.19 Derivative Financial Instruments

The Group enters into transactions with derivative instruments including forwards, swaps and options in the foreign exchange and capital markets. Most of these derivative transactions are considered as effective economic hedges under the Group's risk management policies; however since they do not qualify for hedge accounting under the specific provisions of IAS 39, they are treated as derivatives held-for-trading. Derivative financial instruments are initially recognized at fair value on the date which a derivative contract is entered into and subsequently re-measured at fair value. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recognized in the income statement.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available, and the fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

In the absence of forward foreign currency market rates and reliable forward rate estimations in a volatile market, values of foreign currency forward and swap transactions are determined by comparing the period end foreign exchange rates with the forward rates discounted to the balance sheet date. The resulting gain or loss is reflected to the income statement. In determination of the fair values of interest rate swaps, discounted values calculated using the fixed and floating interest rates between the transaction date and re-pricing date are used. Fair value of option transactions are determined by comparing the option rates discounted to balance sheet date with the period end foreign exchange rates and the resulting gain or loss is reflected to the income statement taking into account exercisability of the option. Changes in assumptions about these factors could affect the reported fair values of financial instruments.

### 2.20 Fiduciary Assets

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

### 2.21 Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products and services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

### 2.22 Adoption of New and Revised Standards

#### (a) New and amended standards adopted by the group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010:

- IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss.

#### (b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the group (although they may affect the accounting for future transactions and events)

The following standards and amendments to existing standards have been published and are mandatory for the group's accounting periods beginning on or after 1 January 2010 or later periods, but the group has not early adopted them.

- IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). The interpretation was published in November 2008. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.

- IFRIC 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009. This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the



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entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both).

• IFRIC 9, 'Reassessment of embedded derivatives and IAS 39, Financial instruments: Recognition and measurement', effective 1 July 2009. This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remain classified as at fair value through profit or loss in its entirety.

• IFRIC 16, 'Hedges of a net investment in a foreign operation' effective 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. In particular, the group should clearly document its hedging strategy because of the possibility of different designations at different levels of the group. IAS 38 (amendment), 'Intangible assets', effective 1 January 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives.

• IAS 1 (amendment), 'Presentation of financial statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

• IAS 36 (amendment), 'Impairment of assets', effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, 'Operating segments' (that is, before the aggregation of segments with similar economic characteristics).

• IFRS 2 (amendments), 'Group cash-settled share-based payment transactions', effective from 1 January 2010. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 - Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.

• IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'. The amendment clarifies that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.

### **(c) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted**

• IFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace IAS 39, 'Financial instruments: recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. However, the standard has not yet been endorsed by the European Union ("EU").

The group is yet to assess IFRS 9's full impact. However, initial indications are that it may affect the group's accounting for its debt available-for-sale financial assets, as IFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss.

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- Revised IAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes IAS 24, 'Related party disclosures', issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted. However, the standard has not yet been endorsed by the EU.

The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities.

- 'Classification of rights issues' (amendment to IAS 32), issued in October 2009. The amendment applies to annual periods beginning on or after 1 February 2010. Earlier application is permitted. The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'.

- IFRIC 19, 'Extinguishing financial liabilities with equity instruments', effective 1 July 2010. The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognised in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. However, the standard has not yet been endorsed by the EU.

- Prepayments of a minimum funding requirement' (amendments to IFRIC 14). The amendments correct an unintended consequence of IFRIC 14, 'IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued, and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented.

- IFRIC 13 'Customer loyalty programmes'. The meaning of 'fair value' is clarified in the context of measuring award credits under customer loyalty programmes. The standard is effective for annual periods beginning 1 January 2011.

- IAS 34, 'Interim financial reporting' Key requirements are to provide guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements around: The circumstances likely to affect fair values of financial instruments and their classification; Transfers of financial instruments between different levels of the fair value hierarchy; changes in classification of financial assets; and changes in contingent liabilities and assets. The standard is effective for annual periods beginning 1 January 2011 and applied retrospectively.

### 2.23 Earnings per share

Earnings per share disclosed in the consolidated income statement are determined by dividing net income by the weighted average number of shares outstanding during the year concerned.

	2010	2009
Profit attributable to equity holders of the Bank	28,726	60,116
Weighted average number of ordinary shares in issue (thousand)	300,000	300,000
<b>Basic earnings per share (expressed in TL per 1,000 share)</b>	<b>0.09575</b>	<b>0.20039</b>

### 2.24 Comparatives

Comparative figures are reclassified, where necessary, to conform to changes in presentation of the 31 December 2009 consolidated financial statements. In order to be consistent with the presentation of financial statements dated 31 December 2010, there are certain reclassifications made on consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity, consolidated statements of changes in equity, consolidated income and expenses accounted under shareholders' equity and consolidated cash flow statements at 31 December 2009.

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### NOTE 3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on Management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. These disclosures supplement the commentary significant accounting policies (Note 2) and financial risk management (Note 4). Judgements that have the most significant effect on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

**Held-to-maturity financial assets.** Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than for certain specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost.

**Impairment losses on loans and advances.** The methodology and assumptions used for estimating both the amount and timing of future cash flows from a portfolio of loans are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

**Fair value of derivatives.** Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require Management to make estimates. Changes in assumptions about these factors could affect reported fair values. Changing the assumptions not supported by observable market data to a reasonably possible alternative would not result in a significantly different profit, income, total assets or total liabilities.

**Tax legislation.** Turkish tax, currency and customs legislation is subject to varying interpretations as disclosed in Note 18.

**Deferred income tax asset recognition.** Deferred income tax assets are recorded to the extent that realisation of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on medium term business plan prepared by Management and extrapolated results thereafter. The business plan is based on Management expectations that are believed to be reasonable under the circumstances.

### NOTE 4 - FINANCIAL RISK MANAGEMENT

#### Strategy in using financial instruments

To maintain and improve the soundness of its operations, the Bank accords top management priority to upgrading its risk management systems and capabilities. According to the Bank's "Risk Management Policy", Financial Risks are composed of Market, Credit and Liquidity risks. These risks are supervised by the "Bank Risk Committee" while the various Risk Committees and Risk Control Unit carry out the risk management related tasks. Risk Management Policy includes details about the framework for defining, measuring, monitoring and managing the risks taken by the business units across the bank. Risk Management Policy covers sound and optimum capital allocation quantification of the actual risks establishment of dynamic risk limit.

The Bank determines risk-based limits, with respect to available economic capital and monitors actual risks against these limits.

All risks (market, credit or liquidity), arising from any type financial instrument are subject to aforementioned risk based limits.

#### A. Credit risk

Seeking to maintain a sound asset portfolio and prevent non-performing loans, the Bank has clearly separated its sales-related departments and credit management department. Credit Officers at the Bank work under a strict and centralized credit approval process, comprise well defined operating and lending policies, reflecting the Bank's commitment to a strong credit culture. The Bank has its own score-sheet and rating scale and uses the output of this internal rating tool in managing the credit portfolio, setting limits, and policies of pricing and collateralization. This tool uses a two-tier rating system; first an obligor rating mapped to a default probability bucket. Second, a facility rating that determines the severity in case of default, such as the quality of the collateral and guarantees and the seniority of the

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facility. Obligor rating process is mainly built upon the score-sheet, which takes both financial and qualitative data as input, yet it allows professional judgment to significantly influence a rating where this is appropriate. The risk rating system generates the key data for calculating credit risk provisions (expected loss), and the required economic capital (unexpected loss). The Bank sees the expected loss as a predictable cost of doing business and pass on this cost to the borrowers. Unexpected loss, however, is defined as the volatility of the average loss rate and covered with a balance sheet cushion of economic capital. The final step is the optimum allocation of the capital across the profit centers and eventually the evaluation of the risk-adjusted performance of each.

Credit quality per class of financial assets is as follows;

### a. Information on types of loans and specific provisions:

2010	Corporate	SME	Consumer	Total
Standard Loans	1,639,402	1,471,806	41,108	3,152,316
Loans under close monitoring	806	9,962	124	10,892
Non-performing loans	59,223	90,738	88	150,049
Specific and generic provision (-)	36,787	45,058	391	82,236
<b>Total</b>	<b>1,662,644</b>	<b>1,527,448</b>	<b>40,929</b>	<b>3,231,021</b>

2009	Corporate	SME	Consumer	Total
Standard Loans	1,436,148	1,160,764	9,694	2,606,606
Loans under close monitoring	35,295	18,136	33	53,464
Non-performing loans	67,869	124,728	80	192,677
Specific and generic provision (-)	54,884	76,362	413	131,659
<b>Total</b>	<b>1,484,428</b>	<b>1,227,266</b>	<b>9,394</b>	<b>2,721,088</b>

### b. Information on loans and receivables past due but not impaired:

2010	Corporate	SME	Consumer	Total
Past due up to 30 days	69,582	89,469	574	159,625
Past due 30-60 days	358	6,984	124	7,466
Past due 60-90 days	448	2,978	-	3,426
<b>Total</b>	<b>70,388</b>	<b>99,431</b>	<b>698</b>	<b>170,517</b>

2009	Corporate	SME	Consumer	Total
Past due up to 30 days	51,083	118,843	48	169,974
Past due 30-60 days	13,220	6,121	-	19,341
Past due 60-90 days	22,075	12,015	33	34,123
<b>Total</b>	<b>86,378</b>	<b>136,979</b>	<b>81</b>	<b>223,438</b>

### c. Information on debt securities, treasury bills and other bills:

2010 Fitch's Rating	Financial Assets at Fair Value through P/L (Net)	Available for Sale Financial Assets (Net)	Held to Maturity Securities (Net)	Total
BB+ (*)	186,428	12	391,159	577,599
Unrated	202	-	-	202
<b>Total</b>	<b>186,630</b>	<b>12</b>	<b>391,159</b>	<b>577,801</b>

(\*) Consists of Turkish Republic government bonds and treasury bills.

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2009 Fitch's Rating	Financial Assets at Fair Value through P/L (Net)	Available for Sale Financial Assets (Net)	Held to Maturity Securities (Net)	Total
BB (*)	8,254	31,605	475,337	515,196
<b>Total</b>	<b>8,254</b>	<b>31,605</b>	<b>475,337</b>	<b>515,196</b>

(\*) Consists of Turkish Republic government bonds and treasury bills.

### d. Information on rating concentration:

Credit risk of the Bank is evaluated via internal assessment system. Loans are graded on the basis of their probability of default, are aligned from highest (the best) ratings to lowest (sub-standard) ratings as below and non-performing loans (impaired ones) are shown at the bottom of the table.

The rating category named as "high" indicates that debtor has a sound financial structure, the category "standard" displays that debtor has a good and satisfactory financial structure, while the category named as "sub-standard" indicates that debtor's financial position is not sound.

	2010	2009
High Grade (A, B)	54.61%	53.64%
Standard Grade (C)	37.58%	34.58%
Sub Standard Grade (D)	4.55%	7.42%
Impaired (E)	1.17%	4.36%
Not rated	2.09%	0.95%

### e. Information on the amount subject to credit risk:

	2010	2009
<b>Balance sheet items subject to credit risk:</b>	<b>3,947,137</b>	<b>3,352,383</b>
Loans and advances to banks and financial institutions	70,603	74,774
Loans and advances to customers	3,231,021	2,721,088
- Corporate	1,662,644	1,484,428
- SME	1,527,448	1,227,266
- Consumer	40,929	9,394
Trading financial assets	207,632	27,235
- Government bonds	186,428	8,254
- Other securities	21,204	18,981
Investment securities	391,341	507,112
- Government bonds	391,171	506,942
- Share certificates	170	170
Other assets	46,540	22,174
<b>Off- balance sheet items subject to credit risk:</b>	<b>1,922,881</b>	<b>1,573,144</b>
Financial guarantees	1,703,699	1,442,833
Credit commitments and other liabilities	219,182	130,311
<b>Total</b>	<b>5,870,018</b>	<b>4,925,527</b>

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### f. Fair value of collaterals (loans and advances to customers):

Collateral mainly comprises the following: cash funds, deposits, mortgages of real estate at the land registry and mortgages of real estate built on allocated land, export documents, guarantees, and acceptances and pledge on vehicles.

2010	Corporate	SME	Consumer	Total
Watch listed loans	23	29,573	1,730	31,326
Loans under legal follow - up	114,798	196,302	13	311,113
<b>Total</b>	<b>114,821</b>	<b>225,875</b>	<b>1,743</b>	<b>342,439</b>
2009	Corporate	SME	Consumer	Total
Watch listed loans	278,879	71,664	-	350,543
Loans under legal follow - up	80,029	199,549	21	279,599
<b>Total</b>	<b>358,908</b>	<b>271,213</b>	<b>21</b>	<b>630,142</b>

Type of Collaterals	2010	2009
Real-estate mortgage	319,679	540,948
Car pledge	824	34
Cash and cash equivalents	21,936	89,160
<b>Total</b>	<b>342,439</b>	<b>630,142</b>

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### g. Concentration of credit risk based on geographical regions:

	Turkey	EU	Other	Total
Cash and balances with the Central Bank of Turkey	230,359	-	-	230,359
Loans and advances to banks	52,689	9,838	8,076	70,603
Financial assets held for trading				
-Trading securities	207,632	-	-	207,632
-Trading derivatives	3,402	1,487	-	4,889
Loans and advances to customers, net				
- Corporate	1,640,059	-	22,585	1,662,644
- SME	1,527,448	-	-	1,527,448
- Consumer	40,929	-	-	40,929
Investment securities				
- Available-for-sale	182	-	-	182
- Held-to-maturity	391,159	-	-	391,159
Other intangible assets	2,526	-	-	2,526
Property and equipment	19,295	-	-	19,295
Deferred income tax assets	9,443	-	-	9,443
Other assets	107,686	11,471	873	120,030
<b>As of 31 December 2010</b>	<b>4,232,809</b>	<b>22,796</b>	<b>31,534</b>	<b>4,287,139</b>
<b>As of 31 December 2009</b>	<b>3,314,165</b>	<b>136,414</b>	<b>202,313</b>	<b>3,652,892</b>
Letter of guarantees	1,351,843	-	-	1,351,843
Letter of credits	351,856	-	-	351,856
Acceptance credits	197,129	-	-	197,129
Other commitments and contingencies	22,053	-	-	22,053
<b>As of 31 December 2010</b>	<b>1,922,881</b>	<b>-</b>	<b>-</b>	<b>1,922,881</b>
<b>As of 31 December 2009</b>	<b>1,573,144</b>	<b>-</b>	<b>-</b>	<b>1,573,144</b>

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### h. Sectoral concentration:

	2010		2009	
	Cash	Non-cash	Cash	Non-cash
Trade	664,561	376,888	406,571	243,588
Finance	384,421	108,190	265,679	86,475
Construction	317,362	391,735	323,560	329,852
Textile	210,265	114,131	200,966	67,906
Production	190,959	124,790	183,485	75,377
Iron and Steel	176,155	163,223	182,429	117,234
Transportation	141,658	89,216	115,907	49,165
Mining	127,911	33,628	51,395	47,898
Food and Beverage	114,080	93,125	146,799	94,283
Automotive	96,701	39,578	128,337	38,433
Tourism	74,674	5,614	61,544	6,625
Forest Product and Agriculture	72,812	63,236	64,775	38,779
Machinery	55,173	48,314	55,242	22,436
Chemical	51,389	33,344	53,127	43,058
Paper	24,939	11,570	21,371	14,390
Petroleum	23,645	60,979	44,420	42,638
Electrics and Electronics	20,460	6,882	27,115	13,978
Others	416,043	158,433	327,348	241,032
<b>Total</b>	<b>3,163,208</b>	<b>1,922,876</b>	<b>2,660,070</b>	<b>1,573,147</b>
Loans in arrears	150,049	-	192,677	-
Allowance for individually impaired loans	(52,967)	-	(114,786)	-
Allowance for collectively impaired loans	(29,269)	-	(16,873)	-
<b>Total</b>	<b>3,231,021</b>	<b>1,922,876</b>	<b>2,721,088</b>	<b>1,573,147</b>

### i. Carrying amounts per class of financial assets whose terms have been renegotiated:

	2010	2009
Loans and advances to customers		
- Corporate lending	19,646	20,557
- Small business lending	3,578	11,084
- Consumer lending	-	-
<b>Total</b>	<b>23,224</b>	<b>31,641</b>



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### B. Market risk

The Group takes an exposure to market risks which arise from open positions in interest rate, currency and equity products all of which are exposed to general and specific market movements, This risk group is handled in two broad categories, Trading and Structural Interest Rate Risk, which requires different models and assumptions, Trading Risk refers to the daily volatility of values of tradable assets, such as Foreign Exchange, Fixed Income Securities, Stocks, and related derivative instruments, Value-at-Risk (VaR) is the primary tool for day-to-day monitoring of trading-related market risk, VaR is a statistical measure of the potential losses that could occur due to movements in market rates and prices under normal market circumstances, Trading limit violations are reported through all levels of risk management including the related member of the Board and senior management on a daily basis, Unless otherwise told by the member of the Board, Treasury Department is obliged to unwind its excess positions the following day,

Secondly, Structural Interest Rate, addresses the risk which stems from sensitivity of the relatively illiquid items of the balance sheet to the shifts of the yield curve, Market risk exposure of the Group as a whole is bound by the economic capital allocated by the Board,

### C. Currency Risk

The Group centralized its currency risk and assigned Treasury Department to manage this risk, in principle, the balance sheet is assumed to be currency risk free, any residual currency risk is treated as trading risk and it is subject to Value-at-Risk limits and nominal limits set by the Board.

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2010	Foreign currency				TL	Total
	US\$	EUR	Other	Total		
<b>Assets</b>						
Cash and balances with the Central Bank of Turkey	156,855	8,610	186	165,651	64,708	230,359
Loans and advances to banks	10,548	36,290	946	47,784	22,819	70,603
Financial assets held for trading						
- Trading securities	303	-	-	303	207,329	207,632
- Trading derivatives	-	-	-	-	4,889	4,889
Loans and advances to customers <sup>(1)</sup>	785,952	407,546	-	1,193,498	2,037,523	3,231,021
Investment securities						
- Available-for-sale	-	-	-	-	182	182
- Held-to-maturity	-	-	-	-	391,159	391,159
Other intangible assets	-	-	-	-	2,526	2,526
Property and equipment	-	-	-	-	19,295	19,295
Deferred income tax assets	-	-	-	-	9,443	9,443
Other assets	10,938	1,492	-	12,430	107,600	120,030
<b>Total assets</b>	<b>964,596</b>	<b>453,938</b>	<b>1,132</b>	<b>1,419,666</b>	<b>2,867,473</b>	<b>4,287,139</b>
<b>Liabilities</b>						
Deposits from banks	3,576	2,350	735	6,661	302,401	309,062
Due to customers	573,851	310,255	2,166	886,272	1,562,100	2,448,372
Other borrowed funds and subordinated debt	429,039	350,168	-	779,207	25,761	804,968
Obligations under finance leases	-	991	-	991	-	991
Derivative financial instruments	-	-	-	-	15,168	15,168
Current income taxes payable	-	-	-	-	9	9
Other provisions	-	-	-	-	10,871	10,871
Retirement benefit obligations	-	-	-	-	3,908	3,908
Other liabilities	46,252	14,830	111	61,193	632,597	693,790
<b>Total liabilities</b>	<b>1,052,718</b>	<b>678,594</b>	<b>3,012</b>	<b>1,734,324</b>	<b>2,552,815</b>	<b>4,287,139</b>
<b>Net balance sheet position</b>	<b>(88,122)</b>	<b>(224,656)</b>	<b>(1,880)</b>	<b>(314,658)</b>	<b>314,658</b>	<b>-</b>
Off-balance sheet derivative instruments net notional position	70,670	219,391	2,044	292,105	(287,113)	4,992
<b>Net foreign currency position</b>	<b>(17,452)</b>	<b>(5,265)</b>	<b>164</b>	<b>(22,553)</b>	<b>27,545</b>	<b>4,992</b>
<b>31 December 2009</b>						
Total Assets	747,454	422,072	900	1,170,426	2,482,466	3,652,892
Total Liabilities	931,641	486,446	7,671	1,425,758	2,227,134	3,652,892
<b>Net balance sheet position</b>	<b>(184,187)</b>	<b>(64,374)</b>	<b>(6,771)</b>	<b>(255,332)</b>	<b>255,332</b>	<b>-</b>
<b>Off-balance sheet derivative instruments net notional position</b>	<b>210,740</b>	<b>58,818</b>	<b>6,787</b>	<b>276,345</b>	<b>(276,465)</b>	<b>(120)</b>
<b>Net foreign currency position</b>	<b>26,553</b>	<b>(5,556)</b>	<b>16</b>	<b>21,013</b>	<b>(21,133)</b>	<b>(120)</b>

(1) Collective impairment allowance of TL 29,269 is presented as TL balance in the above currency position table.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

At 31 December 2010, assets and liabilities denominated in foreign currency were translated into TL using a foreign exchange rate of TL 1,5460 = US\$1, and TL 2,0491 = EUR1 (2009: TL 1,5057 = US\$1, and TL 2,1603 = EUR1).

For the purpose of calculating currency risks, foreign currency indexed loans and securities have been reported in table above in the relevant currency of indexation.

### Foreign currency sensitivity

The Group is mainly exposed to EUR and USD currencies.

The following table details the Group's sensitivity to a 10% increase and decrease in the TL against the relevant foreign currencies. A positive number indicates an increase in profit or loss and other equity where the TL strengthens against the relevant currency.

2010	Change in foreign currency	Effect of profit/loss	Effect of equity
USD	(+/-)10%	+/- 1,727	+/- 1,727
EUR	(+/-)10%	+/- 527	+/- 527
2009	Change in foreign currency	Effect of profit/loss	Effect of equity
USD	(+/-)10%	+/- 2,656	+/- 2,656
EUR	(+/-)10%	+/- 555	+/- 555

### D. Interest rate risk

The net present value of the Banking Book is driven by interest rate differentials in terms of maturity and market characteristics. Trading securities are sensitive to treasury bill rates, therefore they are treated in the trading book and subject to Value-at-Risk limits. Items such as loans, deposits and other interest rate sensitive assets and liabilities are assumed to be sensitive to the structural changes in the interest rates and thus classified in the banking book. The relevant risk is measured with simulation based interest rate models. Applied limits on the risks posed by the asset-liability mismatches are derived from the capital set aside by the Board for Asset-Liability Management purposes.

The table below summarizes the Group's exposure to interest rate risk on the basis of the remaining period at the balance sheet date to the re-pricing date.

### Interest rate sensitivity:

If interest rates had been increased/decreased by 1% in TL and FC and all other variables were held constant, the Group's:

Change in interest rate 31 December 2010	Profit/loss effect	Equity effect
(+) 1%	(3,572)	-
(-) 1%	4,313	-
Change in interest rate 31 December 2009	Profit/loss effect	Equity effect
(+) 1%	(438)	(355)
(-) 1%	491	408

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

The table below summarises the Group's exposure to interest rate risk at 31 December 2010 and 2009. Included in the table are the Group's assets and liabilities in carrying amounts classified in terms of periods remaining to contractual repricing dates.

2010	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non- interest bearing	Total
<b>Assets</b>						
Cash and balances with the Central Bank of Turkey	-	-	-	-	230,359	230,359
Loans and advances to banks	60,320	-	-	-	10,283	70,603
Financial assets held for trading						
- Trading securities	10,876	270	160,991	14,493	21,002	207,632
- Trading derivatives	2,516	1,968	405	-	-	4,889
Loans and advances to customers	2,551,689	198,487	363,374	49,658	67,813	3,231,021
Investment securities						
- Available-for-sale	12	-	-	-	170	182
- Held-to-maturity	294,167	23,630	73,362	-	-	391,159
Other intangible assets	-	-	-	-	2,526	2,526
Property and equipment	-	-	-	-	19,295	19,295
Deferred income tax assets	-	-	-	-	9,443	9,443
Other assets	144	9	-	-	119,877	120,030
<b>Total assets</b>	<b>2,919,724</b>	<b>224,364</b>	<b>598,132</b>	<b>64,151</b>	<b>480,768</b>	<b>4,287,139</b>
<b>Liabilities</b>						
Deposits from banks	302,389	-	-	-	6,673	309,062
Due to customers	2,175,406	23,332	6,788	-	242,846	2,448,372
Other borrowed funds and subordinated debt	524,284	280,684	-	-	-	804,968
Obligations under finance leases	172	514	305	-	-	991
Derivative financial instruments	5,499	6,414	3,255	-	-	15,168
Current income taxes payable	-	-	-	-	9	9
Other provisions	-	-	-	-	10,871	10,871
Retirement benefit obligations	-	-	-	-	3,908	3,908
Other liabilities	343	-	-	-	693,447	693,790
<b>Total liabilities</b>	<b>3,008,093</b>	<b>310,944</b>	<b>10,348</b>	<b>-</b>	<b>957,754</b>	<b>4,287,139</b>
<b>Net interest repricing gap</b>	<b>(88,369)</b>	<b>(86,580)</b>	<b>587,784</b>	<b>64,151</b>	<b>(476,986)</b>	<b>-</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

2009	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non- interest bearing	Total
<b>Assets</b>						
Cash and balances with the Central Bank of Turkey	183,302	-	-	-	30,400	213,702
Loans and advances to banks	64,903	-	-	-	9,871	74,774
Financial assets held for trading						
- Trading securities	4,546	1,179	2,529	-	18,981	27,235
- Trading derivatives	6,947	290	-	-	-	7,237
Loans and advances to customers	2,169,439	238,257	248,914	3,460	61,018	2,721,088
Investment securities						
- Available-for-sale	56	31,549	-	-	170	31,775
- Held-to-maturity	297,036	178,301	-	-	-	475,337
Other intangible assets	-	-	-	-	2,551	2,551
Property and equipment	-	-	-	-	16,879	16,879
Deferred income tax assets	-	-	-	-	7,214	7,214
Other assets	585	-	-	-	74,515	75,100
<b>Total assets</b>	<b>2,726,814</b>	<b>449,576</b>	<b>251,443</b>	<b>3,460</b>	<b>221,599</b>	<b>3,652,892</b>
<b>Liabilities</b>						
Deposits from banks	135,455	1,019	-	-	2,712	139,186
Due to customers	2,241,929	57,234	-	-	211,373	2,510,536
Other borrowed funds and subordinated debt	289,104	108,119	-	-	-	397,223
Obligations under finance leases	395	1,189	694	-	-	2,278
Derivative financial instruments	7,901	787	-	-	-	8,688
Current income taxes payable	-	-	-	-	447	447
Other provisions	-	-	-	-	12,488	12,488
Retirement benefit obligations	-	-	-	-	3,000	3,000
Other liabilities	6,573	914	1,052	-	570,507	579,046
<b>Total liabilities</b>	<b>2,681,357</b>	<b>169,262</b>	<b>1,746</b>	<b>-</b>	<b>800,527</b>	<b>3,652,892</b>
<b>Net interest repricing gap</b>	<b>45,457</b>	<b>280,314</b>	<b>249,697</b>	<b>3,460</b>	<b>(578,928)</b>	<b>-</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

The table below summarises weighted average interest rates for financial instruments by major currencies outstanding at 31 December 2010 and 2009 based on yearly contractual rates.

	2010			2009		
	US\$ (%)	EUR (%)	TL (%)	US\$ (%)	EUR (%)	TL (%)
<b>Assets</b>						
Cash and balances with the Central bank of Turkey	-	-	-	-	-	5.20
Loans and advances to banks	0.50	0,53	7.13	0.15	0.22	6.58
Financial assets held for trading	8.84	-	7.17	-	-	9.05
Investment securities						
- Available-for-sale	-	-	6.60	-	-	7.45
- Held-to-maturity	-	-	7.42	-	-	9.11
Loans and advances to customers	6.04	6.58	11.71	7.25	8.24	14.34
<b>Liabilities</b>						
Deposits from banks	-	-	7.92	0.43	-	7.40
Due to customers	3.15	3.07	8.71	2.97	3.07	9.89
Other borrowed funds and subordinated debt	3.24	3.98	8.12	4.36	4.58	9.69

### E) Liquidity risk

Liquidity risk refers to the possibility of an institution being unable to access necessary funds due to declining fund-raising capacity. The Group closely monitors its overall liquidity level and operates under strict limits based on stress conditions. To address liquidity risk, the Group has adopted a unified approach to TL and foreign currency fund-raising opportunities. The key limit puts a ceiling on the share of overnight borrowing in the current funding pool and acts as a warning signal for the senior management to adjust the composition and/or the pricing of the borrowing instruments.

The Group uses domestic and foreign markets for its liquidity needs, Low level of liquidity needs enables an easy way of loan borrowing from the corresponding markets (Central Bank of the Republic of Turkey ("CBRT"), ISE, Interbank money market, ISE Settlement and Custody Bank and other markets). The Group has a lower ratio of the deposits compared to other banks with similar-sized balance sheets; this indicates that larger loans can be obtained from the markets when needed. The potential cash resources are: money market debts which can be obtained from the domestic banks and repurchase transactions in foreign markets with Eurobonds in the portfolio.

The Group's fund resources consist mainly of deposits. The investments portfolio consists mainly of the held to maturity investments.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. According to BRSA regulations the liquidity ratios during the year was as follows:

2010	Primary Maturity Segment		Secondary Maturity Segment		Stock Values
	FX	FX + TL	FX	FX + TL	FX + TL
Average (%)	152.74	198.28	111.27	137.66	8.08
Highest (%)	335.51	312.47	142.58	162.45	9.72
Lowest (%)	104.83	140.54	94.79	119.80	7.13

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

2009	Primary Maturity Segment		Secondary Maturity Segment		Stock Values
	FX	FX + TL	FX	FX + TL	FX + TL
Average (%)	190.88	241.42	117.49	146.88	9.13
Highest (%)	361.50	415.63	142.07	174.88	21.00
Lowest (%)	125.86	167.82	98.44	128.38	7.19

The following table presents the cash flows payable by the Group under non-derivative financial liabilities remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash inflows.

2010	Demand and up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
<b>Liabilities</b>					
Deposits from banks	309,164	-	-	-	309,164
Due to customers	2,429,119	23,817	7,168	-	2,460,104
Other borrowed funds	228,203	426,274	28,192	206,669	889,338
<b>Total liabilities</b>	<b>2,966,486</b>	<b>450,091</b>	<b>35,360</b>	<b>206,669</b>	<b>3,658,606</b>
2009	Demand and up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
<b>Liabilities</b>					
Deposits from banks	138,221	1,084	-	-	139,305
Due to customers	2,465,789	58,384	-	-	2,524,173
Other borrowed funds	-	174,311	139,591	98,160	412,062
<b>Total liabilities</b>	<b>2,604,010</b>	<b>233,779</b>	<b>139,591</b>	<b>98,160</b>	<b>3,075,540</b>

The following table represents the outstanding derivative cash flows of the Group on undiscounted contractual maturity basis:

### Derivatives settled on a gross basis

2010	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivatives held for trading:						
Foreign exchange derivatives:						
- Outflow	401,928	93,830	281,718	77,045	-	854,521
- Inflow	405,145	93,761	279,926	70,660	-	849,492
<b>Total outflow</b>	<b>401,928</b>	<b>93,830</b>	<b>281,718</b>	<b>77,045</b>	<b>-</b>	<b>854,521</b>
<b>Total inflow</b>	<b>405,145</b>	<b>93,761</b>	<b>279,926</b>	<b>70,660</b>	<b>-</b>	<b>849,492</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

2009	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivatives held for trading:						
Foreign exchange derivatives:						
- Outflow	318,084	132,999	28,528	-	-	479,611
- Inflow	304,118	130,080	30,416	-	-	464,614
Interest rate derivatives:						
- Outflow	-	-	15,600	-	-	15,600
- Inflow	-	-	-	-	-	-
<b>Total outflow</b>	<b>318,084</b>	<b>132,999</b>	<b>44,128</b>	<b>-</b>	<b>-</b>	<b>495,211</b>
<b>Total inflow</b>	<b>304,118</b>	<b>130,080</b>	<b>30,416</b>	<b>-</b>	<b>-</b>	<b>464,614</b>

### F. Operational risk

Operational risk is defined as the risk of losses due to errors, infringements, interruptions, damages caused by internal processes or personnel or systems or caused by external events. Legal and compliance risk is a sub-category of operational risk: it is the risk to earnings from violations or non compliance with laws, rules, regulations, agreements, prescribed practices or ethical standards, The Group has Risk Management and Internal Control practices to keep operational risks under control and minimize it by operating under detailed written procedures. All documents, including Risk Management policies and contingency procedures, are kept up-to-date and accessible to all staff in electronic media.

For the regulatory purposes and consideration in statutory capital adequacy ratio, on a consolidated base the Group calculates the amount subject to operational risk with the basic indicator method in accordance with the Section 4 of the "Regulation Regarding Measurement and Evaluation of Banks' Capital Adequacy Ratio" published in the Official Gazette No, 26333 dated 1 November 2006, namely "The Calculation of the Amount Subject to Operational Risk", based on the gross income of the Group for the years ended 2009, 2008 and 2007, As of 31 December 2010, the total amount subject to operational risk is calculated as TL 439,573 (2009: TL 399,291) and the amount of the related capital requirement is TL 35,166 (2009: TL 31,943).

### G. Capital management

Banks in Turkey are required to comply with capital adequacy guidelines promulgated by the BRSA, which are based upon the standards established by the Bank of International Settlements ("BIS"), These guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-balance sheet exposures.

A bank's capital adequacy ratio is calculated by taking the aggregate of its Tier I capital (which comprises paid-in capital, reserves, retained earnings and profit for the current periods minus period loss (if any)) its Tier II capital (which comprises general loan and free reserves, revaluation funds and subordinated loans obtained) and its Tier III capital (which comprises certain qualified subordinated loans in accordance with BIS guidelines) minus deductions (which comprises participations to financial institutions, special and preliminary and pre-paid expenses, negative differences between fair and book values of subsidiaries, subordinated loans extended, goodwill and capitalized costs), and dividing this aggregate by risk weighted assets, which reflect both credit risk and market risk, In accordance with these guidelines, banks must maintain a total capital adequacy ratio of a minimum of 8%.

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

The Group's regulatory capital position on a consolidated basis is as follows:

	2010	2009
Tier I capital	460,697	431,082
Tier II capital	189,111	21,345
Deductions	-	
<b>Total regulatory capital</b>	<b>649,808</b>	<b>452,427</b>
Amount subject to credit risk	3,762,371	3,036,849
Amount subject to market risk	70,225	59,238
Amount subject to operational risk	439,573	399,291
<b>Capital adequacy ratio (%)</b>	<b>15.21</b>	<b>12.94</b>

### H. Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists.

The estimated fair values of financial instruments have been determined by the Group using available market information and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to develop the estimated fair value.

Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange.

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at their fair value.

	2010		2009	
	Carrying value	Fair value	Carrying value	Fair value
<b>Financial assets:</b>				
Loans and advances to banks	70,603	70,603	74,774	74,774
Investment securities (held-to-maturity)	391,159	397,913	475,337	471,777
Loans and advances to customers	3,231,021	3,396,489	2,721,088	2,973,782
<b>Financial liabilities:</b>				
Deposits from banks	309,062	309,062	139,186	139,186
Due to customers	2,448,372	2,453,705	2,510,536	2,247,721
Other borrowed funds and subordinated debt	804,968	810,232	397,223	292,113

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

The following methods and assumptions were used to estimate the fair value of the Group's financial instruments:

### **Loans and advances to banks**

The fair value of overnight deposits is considered to approximate its carrying amounts. The estimated fair value of long term interest bearing placements is based on discounted cash flows using prevailing money market interest rates at the balance sheet date with similar credit risk and remaining maturity.

### **Loans and advances to customers**

Loans and advances to customers are net of allowances for impairment. The estimated fair value of loans and advances to customers represent the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates with similar credit risk, currency and remaining maturity to determine their fair value.

### **Investment securities**

Fair value for held-to-maturity securities is based on market prices or prices prevailing at the balance sheet date announced by the ISE.

### **Due to customers, deposits from banks, other borrowed funds**

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

The estimated fair value of other borrowings without quoted market price is of estimated future cash flows expected to be paid using money market interest rates prevailing at the balance sheet date with similar credit risk, currency and remaining maturity.

The estimated fair value of interest bearing liabilities due to customers is based on discounted cash flows of estimated future cash flows expected to be paid.

### **Fair value hierarchy**

IFRS 7 requires classification of line items at fair value presented at financial statements according to the defined levels. These levels depend on the observability of data used during fair value calculations, Classification for fair value is generated as followed below:

Level 1: Assets or liabilities with prices recorded (unadjusted) in active markets

Level 2: Assets or liabilities that are excluded in the Level 1 of recorded prices directly observable by prices or indirectly observable derived through prices observable from similar assets or liabilities

Level 3: Assets and liabilities where no observable market data can be used for valuation

There are not any significant transfers between Level 1 and Level 2 of the fair value hierarchy.

According to these classification principles stated, the Group's classification of financial assets and liabilities carried at their fair value are as follows:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### Assets and liabilities measured at fair value

2010	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
- Debt securities	186,428	202	-	186,630
- Derivatives	-	4,889	-	4,889
- Equity securities	21,002	-	-	21,002
Available-for-sale financial assets				
- Investments securities - debt	12	-	-	12
<b>Total assets</b>	<b>207,442</b>	<b>5,091</b>	<b>-</b>	<b>212,533</b>
Financial liabilities at fair value through profit and loss				
- Derivatives	-	15,168	-	15,168
<b>Total liabilities</b>	<b>-</b>	<b>15,168</b>	<b>-</b>	<b>15,168</b>

Share certificates that are not quoted in the exchange are recognized at cost and are not included in the table above.

### I. Fiduciary activities

The Group provides custody services to third parties. Those assets that are held in a fiduciary capacity are not included in these consolidated financial statements. Fiduciary capacity of the Group is as follows:

	2010	2009
Investment securities held in custody	859,415	862,564
Cheques received for collection	116,385	90,442
Commercial notes received for collection	30,100	17,629
	<b>1,005,900</b>	<b>970,635</b>

### NOTE 5 - CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition:

	2010	2009
Cash and cash equivalents	28,791	30,388
Demand deposits with the Central Bank of Turkey	94,253	112,415
Loans and advances to banks (with original maturity less than three months)	70,596	74,773
<b>Total</b>	<b>193,640</b>	<b>217,576</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 6 - CASH AND BALANCES WITH THE CENTRAL BANK OF TURKEY

	2010	2009
<b>Cash and cash equivalents</b>		
Cash in hand - foreign currency	18,191	18,657
Cash in hand - TL	10,600	11,731
	<b>28,791</b>	<b>30,388</b>
<b>Demand deposits at central banks</b>		
Foreign currency	40,281	34,102
TL	54,108	79,270
	<b>94,389</b>	<b>113,372</b>
<b>Reserve deposits at central banks</b>		
Foreign currency	107,179	69,942
	<b>107,179</b>	<b>69,942</b>
<b>Total</b>	<b>230,359</b>	<b>213,702</b>

Reserve deposits are not available to finance the Group's day-to-day operations.

Reserve requirements of CBRT represent the minimum deposits, as required by the Turkish Banking Law, calculated on the basis of customer deposits taken at the rates determined by the CBRT. In accordance with the current legislation, the mandatory reserve deposit rates for Turkish lira and foreign currency deposits are 6% (2009: 5%) and 11% (2009: 9%), respectively. The mandatory reserve deposit rates are applicable to both time and demand deposits.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 7 - LOANS AND ADVANCES TO BANKS

	2010			2009		
	Domestic	Foreign	Total	Domestic	Foreign	Total
<b>TL:</b>						
Nostro/demand deposits	326	-	326	1,460	-	1,460
Time deposits	-	1,001	1,001	7,004	-	7,004
Interbank money market	21,492	-	21,492	17,384	-	17,384
	<b>21,818</b>	<b>1,001</b>	<b>22,819</b>	<b>25,848</b>	<b>-</b>	<b>25,848</b>
<b>Foreign currency:</b>						
Nostro/demand deposits	831	9,126	9,957	354	8,057	8,411
Time deposits	30,041	7,786	37,827	6,481	34,034	40,515
	<b>30,872</b>	<b>16,912</b>	<b>47,784</b>	<b>6,835</b>	<b>42,091</b>	<b>48,926</b>
<b>Total</b>	<b>52,690</b>	<b>17,913</b>	<b>70,603</b>	<b>32,683</b>	<b>42,091</b>	<b>74,774</b>

### NOTE 8 - FINANCIAL ASSETS HELD FOR TRADING

	2010	2009
Government bonds and treasury bills	21,881	2,745
Government bonds and treasury bills sold under repurchase agreements	164,547	5,509
Other debt securities	202	-
<b>Total debt securities</b>	<b>186,630</b>	<b>8,254</b>
Equity securities - listed	21,002	18,981
<b>Total equity securities</b>	<b>21,002</b>	<b>18,981</b>
Derivative financial instruments	4,889	7,237
<b>Total financial assets held for trading</b>	<b>212,521</b>	<b>34,472</b>

Government bonds and treasury bills are discount and coupon securities issued by the Government of the Republic of Turkey. Other debt securities represent corporate bonds issued by companies incorporated in Turkey.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS

The Group utilises the following derivative instruments:

"Currency forwards" represent commitments to purchase or sell foreign and domestic currency, including undelivered spot transactions.

"Currency swaps" are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates. Currency swaps involve the exchange of the principal as well. The Group risks are represented by the potential cost of replacing the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value and the liquidity of the market. To control the level of risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

Options are the right to buy or sell for the buyer and are the obligations for the writer an asset at a specified price until a specified expiration date. Options are traded for clients' needs.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in foreign exchange rates and interest rates relative to their terms.

#### 2010

	Contract/notional amount	Fair values	
		Assets	Liabilities
<b>Derivatives held for trading</b>			
Foreign exchange derivatives:			
Currency forwards	183,390	1,279	462
Currency swaps	1,096,657	820	11,917
OTC currency options	423,966	2,790	2,789
<b>Total derivative assets/(liabilities) held for trading</b>	<b>1,704,013</b>	<b>4,889</b>	<b>15,168</b>
Current		4,889	15,168
Non-current		-	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### 2009

	Contract/notional amount	Fair values	
		Assets	Liabilities
<b>Derivatives held for trading</b>			
Foreign exchange derivatives:			
Currency forwards	42,308	34	739
Currency swaps	549,698	5,016	5,539
OTC currency options	352,219	2,187	2,129
Interest rate derivatives:			
Option	15,600	-	281
<b>Total derivative assets/(liabilities) held for trading</b>	<b>959,825</b>	<b>7,237</b>	<b>8,688</b>
Current		7,237	8,688
Non-current		-	-

### NOTE 10 - LOANS AND ADVANCES TO CUSTOMERS

#### 2010

	Corporate	SME	Consumer	Total
Performing loans	1,639,402	1,471,806	41,108	3,152,316
Loans under close monitoring	806	9,962	124	10,892
Loans under legal follow - up	59,223	90,738	88	150,049
<b>Gross</b>	<b>1,699,431</b>	<b>1,572,506</b>	<b>41,320</b>	<b>3,313,257</b>
Specific allowance for impairment	24,436	28,443	88	52,967
Collective allowance for impairment	12,351	16,615	303	29,269
<b>Total allowance for impairment</b>	<b>36,787</b>	<b>45,058</b>	<b>391</b>	<b>82,236</b>
<b>Net</b>	<b>1,662,644</b>	<b>1,527,448</b>	<b>40,929</b>	<b>3,231,021</b>
Current				2,728,213
Non-current				502,808

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### 2009

	Corporate	SME	Consumer	Total
Performing loans	1,436,148	1,160,764	9,694	2,606,606
Loans under close monitoring	35,295	18,136	33	53,464
Loans under legal follow - up	67,869	124,728	80	192,677
<b>Gross</b>	<b>1,539,312</b>	<b>1,303,628</b>	<b>9,807</b>	<b>2,852,747</b>
Specific allowance for impairment	45,780	68,651	355	114,786
Collective allowance for impairment	9,104	7,711	58	16,873
<b>Total allowance for impairment</b>	<b>54,884</b>	<b>76,362</b>	<b>413</b>	<b>131,659</b>
<b>Net</b>	<b>1,484,428</b>	<b>1,227,266</b>	<b>9,394</b>	<b>2,721,088</b>
Current				2,364,235
Non-current				356,853

Reconciliation of allowance account for losses on loans and advances by class is as follows:

	2010			2009	
	Corporate	SME	Consumer	Total	Total
<b>At 1 January</b>	<b>54,884</b>	<b>76,362</b>	<b>413</b>	<b>131,659</b>	<b>66,817</b>
Provision for loan impairment	65,406	13,932	21	79,359	105,136
Amounts recovered during the year	(83,503)	(45,236)	(43)	(128,782)	(27,479)
Loans written off during the year as uncollectible (-)	-	-	-	-	(1,909)
<b>At 31 December</b>	<b>36,787</b>	<b>45,058</b>	<b>391</b>	<b>82,236</b>	<b>142,565</b>

The Bank sold a non-performing loan portfolio amounting to TL 11,525 to Girişim Varlık Yönetim A.Ş. for TL 11,525 as of 10 November 2010. Additionally, the Bank sold out another non-performing portfolio amounting to TL 34,535 to Anadolu Varlık Yönetim A.Ş. for TL 1,250 as of 29 December 2010. These two transactions resulted in loss of TL 4,248.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 11 - INVESTMENT SECURITIES

#### (i) Securities available-for-sale

	2010	2009
Debt securities - at fair value:		
Government bonds and treasury bills	12	31,605
Equity securities - at fair value		
Unlisted	170	170
<b>Total securities available-for-sale</b>	<b>182</b>	<b>31,775</b>
Current	-	31,594
Non-current	182	181

Government bonds and treasury bills are discount and coupon securities issued by the Government of the Republic of Turkey.

Net losses from changes in the fair value of available-for-sale investment securities, net of tax TL 288 (2009: TL 2,548 net losses). There are no impairments recognised for available-for-sale debt securities.

The principal available-for-sale equity shares at 31 December 2010 and 2009 are as follows:

Name of the company	Nature of Business	2010 Control rates (%)	2009 Control rates (%)	2010	2009
<b>Unlisted</b>	Information				
Anadolu Bilişim Hizmetleri A.Ş.	Technology	4.26	4.26	170	170
				<b>170</b>	<b>170</b>

The movement in available-for-sale securities at 31 December is as follows:

	2010	2009
<b>At 1 January</b>	<b>31,775</b>	<b>74,904</b>
Additions	-	329,191
Disposals/redemption	(31,593)	(369,735)
Changes in fair value	-	(2,585)
<b>At 31 December</b>	<b>182</b>	<b>31,775</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### (ii) Securities held-to-maturity

	2010	2009
Debt securities - at amortised cost - listed:		
Government bonds and treasury bills	243,440	375,324
Government bonds and treasury bills sold under repurchase agreements	147,719	100,013
<b>Total securities held-to-maturity</b>	<b>391,159</b>	<b>475,337</b>
Current	81,504	247,077
Non-current	309,655	228,260
<b>Total investment securities</b>	<b>391,159</b>	<b>475,337</b>

The movement in held-to-maturity securities at 31 December is as follows:

	2010	2009
<b>At 1 January</b>	<b>475,337</b>	<b>189,271</b>
Additions	232,472	324,514
Disposals/redemption	(310,384)	(28,092)
Impairment losses	(6,266)	(10,356)
<b>At 31 December</b>	<b>391,159</b>	<b>475,337</b>

Government bonds and treasury bills are discount and coupon securities issued by the Government of the Republic of Turkey.

### NOTE 12 - OTHER INTANGIBLE ASSETS

	2010	2009
Cost	35,687	34,788
Accumulated amortisation	(33,161)	(32,237)
<b>Net book amount</b>	<b>2,526</b>	<b>2,551</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

Movements of other intangible assets were as follows:

### 2010

	Rights and licenses	Software	Total
<b>Cost</b>			
<b>At 1 January</b>	<b>30,281</b>	<b>4,507</b>	<b>34,788</b>
Additions	932	30	962
Disposals	(63)	-	(63)
<b>At 31 December</b>	<b>31,150</b>	<b>4,537</b>	<b>35,687</b>
<b>Accumulated amortisation</b>			
<b>At 1 January</b>	<b>(28,166)</b>	<b>(4,071)</b>	<b>(32,237)</b>
Amortisation charge (Note 27)	(741)	(183)	(924)
Disposals	-	-	-
<b>At 31 December</b>	<b>(28,907)</b>	<b>(4,254)</b>	<b>(33,161)</b>
<b>Net book amount at 31 December</b>	<b>2,243</b>	<b>283</b>	<b>2,526</b>

### 2009

	Rights and licenses	Software	Total
<b>Cost</b>			
<b>At 1 January</b>	<b>29,090</b>	<b>4,507</b>	<b>33,597</b>
Additions	1,191	-	1,191
Disposals	-	-	-
<b>At 31 December</b>	<b>30,281</b>	<b>4,507</b>	<b>34,788</b>
<b>Accumulated amortisation</b>			
<b>At 1 January</b>	<b>(27,473)</b>	<b>(3,884)</b>	<b>(31,357)</b>
Amortisation charge (Note 27)	(693)	(187)	(880)
Disposals	-	-	-
<b>At 31 December</b>	<b>(28,166)</b>	<b>(4,071)</b>	<b>(32,237)</b>
<b>Net book amount at 31 December</b>	<b>2,115</b>	<b>436</b>	<b>2,551</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 13 - PROPERTY AND EQUIPMENT

	2010		2009		
Cost	71,031		70,917		
Accumulated depreciation and impairment	(51,736)		(54,038)		
<b>Net book amount</b>	<b>19,295</b>		<b>16,879</b>		
2010	Furniture and Office Equipment	Leasehold Improvements	Motor Vehicles	Leasing	Total
<b>Cost</b>					
<b>At 1 January</b>	<b>37,907</b>	<b>22,912</b>	<b>191</b>	<b>9,907</b>	<b>70,917</b>
Additions	3,353	4,788	28	-	8,169
Disposals	(5,293)	(1,088)	(33)	(1,641)	(8,055)
<b>At 31 December</b>	<b>35,967</b>	<b>26,612</b>	<b>186</b>	<b>8,266</b>	<b>71,031</b>
<b>Accumulated depreciation and impairment</b>					
<b>At 1 January</b>	<b>(33,571)</b>	<b>(13,010)</b>	<b>(175)</b>	<b>(7,282)</b>	<b>(54,038)</b>
Depreciation charge (Note 27)	(1,369)	(2,695)	(12)	(1,157)	(5,233)
Disposals	5,245	623	33	1,634	7,535
<b>At 31 December</b>	<b>(29,695)</b>	<b>(15,082)</b>	<b>(154)</b>	<b>(6,805)</b>	<b>(51,736)</b>
<b>Net book amount at 31 December</b>	<b>6,272</b>	<b>11,530</b>	<b>32</b>	<b>1,461</b>	<b>19,295</b>
2009	Furniture and Office Equipment	Leasehold Improvements	Motor Vehicles	Leasing	Total
<b>Cost</b>					
<b>At 1 January</b>	<b>37,013</b>	<b>22,685</b>	<b>191</b>	<b>9,907</b>	<b>69,796</b>
Additions	894	227	-	-	1,121
Disposals	-	-	-	-	-
<b>At 31 December</b>	<b>37,907</b>	<b>22,912</b>	<b>191</b>	<b>9,907</b>	<b>70,917</b>
<b>Accumulated depreciation and impairment</b>					
<b>At 1 January</b>	<b>(32,485)</b>	<b>(10,346)</b>	<b>(169)</b>	<b>(6,003)</b>	<b>(49,003)</b>
Depreciation charge (Note 27)	(1,086)	(2,664)	(6)	(1,279)	(5,035)
Disposals	-	-	-	-	-
<b>At 31 December</b>	<b>(33,571)</b>	<b>(13,010)</b>	<b>(175)</b>	<b>(7,282)</b>	<b>(54,038)</b>
<b>Net book amount at 31 December</b>	<b>4,336</b>	<b>9,902</b>	<b>16</b>	<b>2,625</b>	<b>16,879</b>

At 31 December 2010, there is no provision for impairment on property and equipment (2009: None).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 14 - OTHER ASSETS

	2010	2009
Contractually sold repossessed assets	28,938	28,966
Asset held for resale	28,189	12,355
Receivables from check clearance	27,109	17,138
Collaterals given for derivative transactions	12,423	2,989
Prepaid expenses	6,555	3,471
Collaterals given for securities	3,571	5,855
Others	13,245	4,326
<b>Total</b>	<b>120,030</b>	<b>75,100</b>
Current	33,663	20,609
Non-current	86,367	54,491

Assets held for resale represent mainly foreclosed assets received against uncollectible loans and advances to customers, to be sold as required by the Turkish Banking Law. Movements in assets held for resale at 31 December were as follows:

	2010	2009
<b>Net book amount at 1 January</b>	<b>12,355</b>	<b>9,265</b>
Additions	39,916	22,912
Disposals	(23,859)	(19,822)
Impairment charge for the year, net	(223)	-
<b>Net book amount at 31 December</b>	<b>28,189</b>	<b>12,355</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 15 - DEPOSITS FROM BANKS

	2010			2009		
	Demand	Term	Total	Demand	Term	Total
<b>Foreign currency:</b>						
Foreign banks	6,662	-	6,662	2,707	50,132	52,839
	<b>6,662</b>	<b>-</b>	<b>6,662</b>	<b>2,707</b>	<b>50,132</b>	<b>52,839</b>
<b>TL:</b>						
Domestic banks	11	-	11	11	572	583
Foreign banks	-	1,535	1,535	-	-	-
Funds deposited under repurchase agreements	-	300,854	300,854	-	85,764	85,764
	<b>11</b>	<b>302,389</b>	<b>302,400</b>	<b>11</b>	<b>86,336</b>	<b>86,347</b>
<b>Total</b>	<b>6,673</b>	<b>302,389</b>	<b>309,062</b>	<b>2,718</b>	<b>136,468</b>	<b>139,186</b>
Current	6,673	302,389	309,062	2,718	136,468	139,186
Non-current	-	-	-	-	-	-

### NOTE 16 - DUE TO CUSTOMERS

	2010			2009		
	Demand	Term	Total	Demand	Term	Total
<b>Foreign currency deposits:</b>						
Saving deposits	21,548	374,533	396,081	21,850	434,301	456,151
Commercial deposits	81,585	408,606	490,191	67,237	467,973	535,210
	<b>103,133</b>	<b>783,139</b>	<b>886,272</b>	<b>89,087</b>	<b>902,274</b>	<b>991,361</b>
<b>TL deposits:</b>						
Saving deposits	26,954	875,772	902,726	16,037	873,459	889,496
Commercial deposits	76,781	531,603	608,384	72,659	507,781	580,440
Funds deposited under repurchase agreements	-	15,012	15,012	-	15,649	15,649
Public sector deposits	35,978	-	35,978	33,590	-	33,590
	<b>139,713</b>	<b>1,422,387</b>	<b>1,562,100</b>	<b>122,286</b>	<b>1,396,889</b>	<b>1,519,175</b>
<b>Total</b>	<b>242,846</b>	<b>2,205,526</b>	<b>2,448,372</b>	<b>211,373</b>	<b>2,299,163</b>	<b>2,510,536</b>
Current	242,846	2,198,738	2,441,584	211,373	2,299,163	2,510,536
Non-current	-	6,788	6,788	-	-	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 17 - OTHER BORROWED FUNDS AND SUBORDINATED DEBT

	2010	2009
<b>Foreign institutions and banks</b>		
Syndication loans	298,092	112,665
Subordinated debt	162,374	-
Other	123,630	96,253
Total foreign	584,096	208,918
Domestic banks	220,872	188,305
<b>Total domestic</b>	<b>220,872</b>	<b>188,305</b>
<b>Total</b>	<b>804,968</b>	<b>397,223</b>
Current	804,968	287,203
Non-current	-	110,020

As of 31 December 2010, funds borrowed from foreign institutions include a syndicated credit facility, in the amount of US\$ 113 million and EUR42.5 million dual-tranche multi-currency term loan facility dated 10 May 2010, with an interest rate of annual Libor+2.10% provided by 24 international banks with Commerzbank acting as agent, and matures on 9 May 2011.

As of December 31, 2009, the Bank's foreign currency funds borrowed include a syndicated loan of US\$ 30 million and EUR 31 million obtained on 20 April 2009 with a maturity of 12 months. Funds borrowed are unsecured.

At 29 December 2010, the Bank obtained a subordinated loan amounting to US\$105 million, with ten years maturity with an interest rate of Libor+4.5%. The loan was obtained from International Finance Corporation, Black Sea Trade and Development Bank and FMO Amsterdam. With the written approval of BRSA, the loan has been approved as subordinated loan and can be taken into consideration as supplementary capital within the limits of "Capital Adequacy Regulation".

Some of the Group's borrowing contracts including subordinated debt are subject to covenant clauses, whereby the Group is required to meet certain key performance indicators.

### NOTE 18 - TAXATION

	2010	2009
Current tax expense	(7,039)	(19,027)
Deferred tax (expense)	2,169	5,318
	<b>(4,870)</b>	<b>(13,709)</b>

Turkish tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return, Therefore, provisions for taxes, as reflected in these consolidated financial statements, have been calculated on a separate-entity basis,

Corporate Tax Law numbered 5520 became effective as of 1 January 2006 with the Official Gazette numbered 26205 published on 21 June 2006. By the issue of this law, Corporate Tax Law numbered 5422 was abolished.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

Under the Corporate Tax Law numbered 5520, the applicable corporate tax rate is 20% for 2010 (2009: 20%). Corporate tax is payable at a rate of 20% over the corporate tax base of the company after adjusting for certain disallowable expenses, exempt income, investment allowance and other additions and deductions. The annual corporate income tax return is required to be filed until 25th day of the fourth month following the close of the related fiscal year. Payments will be carried out in single installment until the end of the month in which the tax return is to be filed.

Dividends paid to non-resident corporations, which have a fixed place of business or permanent representative in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital via issuing bonus shares is not considered as a profit distribution and thus does not incur withholding tax. Provisions of bilateral treaties are reserved.

Corporations are required to pay advance corporation tax quarterly at the rate of 20% on their quarterly determined corporate income. Advance tax return is filed by the 14th of the second month following the each quarterly period and is payable on the 17th of the same month. Advance tax paid by corporations is credited against the annual corporation tax liability. The balance of the advance tax paid may be refunded or used to offset against other liabilities to the government.

In accordance with Tax Law No: 5024 "Law Related to Changes in Tax Procedure Law, Income Tax Law and Corporate Tax Law" that was published on the Official Gazette on 30 December 2003 to amend the tax base for non-monetary assets and liabilities, effective from 1 January 2004, the income and corporate taxpayers will prepare the statutory financial statements by adjusting the non-monetary assets and liabilities for the changes in the general purchasing power of the Turkish Lira. In accordance with the aforementioned law provisions, in order to apply inflation adjustment, cumulative inflation rate (SIS-WPI) over last 36 months and 12 months must exceed 100% and 10%, respectively. Inflation adjustment has not been applied as these conditions were not fulfilled in the year 2009.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Tax authorities have the right to audit tax declarations and accounting records for 5 years, and may issue re-assessment based on their findings for tax purposes.

Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to 5 years. Tax losses cannot be carried back to offset profits from previous periods.

75% of the capital gains of corporations' from sale of participation shares and property which have been in their assets at least for two years is exempt from corporate tax provided that this amount is kept in a special reserve account in the liabilities side of the balance sheet for 5 years.

Reconciliation between the theoretical tax amount that would arise using the basic tax rate of the Parent and the actual taxation charge for the year is stated below:

	2010	2009
<b>Profit before income taxes</b>	<b>35,910</b>	<b>77,815</b>
Theoretical income tax of the applicable tax rate of 20%	(7,182)	(15,563)
Expenditure not allowable for income tax purposes	(10,525)	(23,158)
Non taxable income	11,088	19,527
Effect of non-taxable consolidation adjustments	1,749	5,485
<b>Income tax expense</b>	<b>(4,870)</b>	<b>(13,709)</b>

### Deferred income taxes

For all subsidiaries and the Parent, deferred income taxes are calculated on temporary differences that are expected to be realised or settled based on the taxable income in fiscal year 2010 under the liability method using a principal tax rate of 20% at 31 December 2010 (2009: 20%).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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The deferred income tax asset and liability represent the tax effect of temporary differences arising due to the different treatment of certain items of income and expenses included in the financial statements compared to the local tax return in accordance with the applicable tax law.

The temporary differences giving rise to the deferred income tax assets and deferred income tax liabilities are as follows:

	Cumulative Temporary Differences		Deferred Tax Asset/Liability	
	2010	2009	2010	2009
Loan loss impairment provision	38,766	27,779	7,753	5,556
Revaluation of derivative instruments at fair value	10,364	1,040	2,074	208
Valuation differences on investment securities	6,757	11,423	1,351	2,285
Bonus provision	6,585	6,000	1,317	1,200
Employee termination benefits and vacation pay liability	6,329	5,038	1,266	1,008
Court case provision	826	519	165	104
Other provision	-	8,570	-	1,714
Other	1,144	554	229	111
<b>Deferred income tax assets</b>	<b>70,771</b>	<b>60,923</b>	<b>14,155</b>	<b>12,186</b>
Reversal of specific loan provision deducted for tax purposes	19,365	19,430	3,873	3,886
Difference between carrying value and tax base of property and equipment	4,191	3,509	839	702
Deferred tax amount of available for sale portfolio	-	1,920	-	384
<b>Deferred income tax liabilities</b>	<b>23,556</b>	<b>24,859</b>	<b>4,712</b>	<b>4,972</b>
<b>Deferred income tax assets, net</b>	<b>47,215</b>	<b>36,064</b>	<b>9,443</b>	<b>7,214</b>

The movements of deferred income taxes at 31 December were as follows:

	2010	2009
<b>1 January</b>	<b>7,214</b>	<b>1,968</b>
Charge for the year, net	2,169	5,318
Tax assets charged to equity	60	(72)
<b>31 December</b>	<b>9,443</b>	<b>7,214</b>

At 31 December 2010, there are no deductible temporary differences for which no deferred tax asset is recognised in the balance sheet (2009: None).

Income tax effects relating to components of other comprehensive income

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### NOTE 19 - OTHER PROVISIONS

	2010	2009
Provision for losses on credit related commitments	9,502	10,906
Other legal provision	826	519
Other	543	1,063
<b>Total</b>	<b>10,871</b>	<b>12,488</b>
Current	-	-
Non-current	10,871	12,488

#### Other legal provisions

At 31 December 2010, the Group is involved in number of legal disputes, The Group's lawyers advise that, owing to developments in some of these cases; it is probable that the Group will be found liable. Therefore, the management has recognised a provision of TL 826 (2009: TL 519) as the best estimate of the amount to settle these potential obligations.

### NOTE 20 - RETIREMENT BENEFIT OBLIGATIONS

	2010	2009
Balance sheet obligations for:		
- Reserve for employment termination benefits	3,907	3,000
	<b>3,907</b>	<b>3,000</b>

The movement in the reserve for employee benefits is as follows:

	2010	2009
<b>1 January</b>	<b>3,000</b>	<b>2,439</b>
Interest costs	140	144
Actuarial gains and losses	97	79
Annual charge	1,152	1,277
Paid during the year	(482)	(939)
<b>31 December</b>	<b>3,907</b>	<b>3,000</b>

Under the Turkish Labour Law, the Parent and its subsidiaries are required to pay termination benefits to each employee who has completed at least one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement age (63 for women and 64 for men), Since the legislation was changed on 8 September 1999, there are certain transitional provisions relating to length of service prior to retirement, The amount payable consists of one month's salary limited to a maximum of TL 2,623.23 (1 January 2009: TL 2,427.04) for each year of service.

There are no agreements for pension commitments other than the legal requirement as explained above. The liability is not funded, as there is no funding requirement.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

IFRS requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. In the consolidated financial statements, the Group reflected a liability calculated using the projected unit credit method and based upon the factors derived using their experience of personnel terminating their services and being eligible to receive employment termination benefits. The provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees.

Accordingly the following financial and demographical actuarial assumptions were used in the calculations of the provision:

	2010	2009
Discount rate (%)	4.66	5.92
The probability of retirement (%)	90.48	90.32

**NOTE 21 - OTHER LIABILITIES**

	2010	2009
Blocked accounts	94,285	40,922
Cheques in collection	29,959	16,502
Clearing accounts	27,109	17,138
Taxes other than income and withholdings	8,062	8,413
Bonus	6,675	6,099
Collaterals received for securities	3,572	5,855
Provision for unused annual vacation	2,434	2,106
Other	29,222	20,290
<b>Total</b>	<b>201,318</b>	<b>117,325</b>
Current	3,560	6,144
Non-current	197,758	111,181

**NOTE 22 - SHARE CAPITAL AND SHARE PREMIUM**

The historic amount of share capital of the Company consists of 300 million (2009: 300 million) authorised shares with a nominal value of TL 1 each. The Company's authorised capital amounts to TL 300,000 (2009: TL 300,000).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

The issued and fully paid-in share capital and share premium are as follows:

Shareholders	2010		2009	
	Participation rate (%)	TL thousand	Participation rate (%)	TL thousand
Anadolu Endüstri Holding A.Ş.	77.71	233,142	77.71	233,142
Other	22.29	66,858	22.29	66,858
<b>Historical share capital</b>	<b>100.00</b>	<b>300,000</b>	<b>100.00</b>	<b>300,000</b>
Share premium		85		85
<b>Total share capital and share premium</b>		<b>300,085</b>		<b>300,085</b>

### NOTE 23 - RETAINED EARNINGS AND OTHER RESERVES

	2010	2009
Statutory reserve	8,016	5,121
Revaluation reserve - available-for-sale investments	1	289
<b>Total other reserves</b>	<b>8,017</b>	<b>5,410</b>
<b>Retained earnings</b>	<b>164,535</b>	<b>138,704</b>

Movements in other reserves were as follows:

	Statutory reserves	Revaluation reserves	Total
<b>At 1 January 2010</b>	<b>5,121</b>	<b>289</b>	<b>5,410</b>
Net change in available-for-sale investments, net of tax	-	(288)	(288)
Transfer to statutory reserves	2,895	-	2,895
<b>At 31 December 2010</b>	<b>8,016</b>	<b>1</b>	<b>8,017</b>
	Statutory reserves	Revaluation reserves	Total
<b>At 1 January 2009</b>	<b>2,162</b>	<b>2,837</b>	<b>4,999</b>
Net change in available-for-sale investments, net of tax	-	(2,548)	(2,548)
Purchase from non-controlling interests	12	-	12
Transfer to statutory reserves	2,947	-	2,947
<b>At 31 December 2009</b>	<b>5,121</b>	<b>289</b>	<b>5,410</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

Retained earnings as per the statutory financial statements other than legal reserves are available for distribution, subject to the legal reserve requirement referred to below.

Under the Turkish Commercial Code, the Group is required to create the following legal reserves from appropriation of earnings, which are available for distribution only in the event of liquidation or losses:

a) First legal reserve, appropriated at the rate of 5% of net income, until the total reserve is equal to 20% of issued and fully paid-in share capital.

b) Second legal reserve, appropriated at the rate of at least 10% of distribution in excess of 5% of issued and fully paid-in share capital, without limit, It may be used to absorb losses.

After deducting taxes and setting aside the legal reserves as discussed above, the remaining balance of net profit is available for distribution to shareholders.

**NOTE 24 - NET INTEREST INCOME**

	<b>2010</b>	<b>2009</b>
<b>Interest income on:</b>		
Loans and advances:		
- to banks	4,523	9,869
- to customers	286,870	378,697
Trading and investment securities	49,081	80,006
Other	5,798	6,253
<b>Total interest income</b>	<b>346,272</b>	<b>474,825</b>
<b>Interest expense on:</b>		
Due to customers	142,214	196,632
Other borrowed funds and subordinated debt	16,555	21,533
Repurchase agreement	10,632	12,429
Deposits from banks	250	462
Other	649	1,886
<b>Total interest expense</b>	<b>170,300</b>	<b>232,942</b>
<b>Net interest income</b>	<b>175,972</b>	<b>241,883</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 25 - NET FEE AND COMMISSION INCOME

	2010	2009
<b>Fee and commission income on:</b>		
Letter of guarantee	20,462	18,891
Brokerage	5,109	3,602
Banking services	4,049	3,877
Letter of credit	3,400	2,779
Portfolio and other management fees	1,548	1,476
Other	510	313
<b>Total fee and commission income</b>	<b>35,078</b>	<b>30,938</b>
<b>Fee and commission expense on:</b>		
Debit card commissions	928	780
Correspondent bank commissions	583	478
CBRT Interbank money market transaction commissions	542	412
Effective and future transaction commissions	123	181
Transfer commissions	26	40
Other	736	492
<b>Total fee and commission expense</b>	<b>2,938</b>	<b>2,383</b>
<b>Net fee and commission income</b>	<b>32,140</b>	<b>28,555</b>

### NOTE 26 - TRADING GAINS AND LOSSES, NET

	2010	2009
Trading securities	7,663	(4,573)
Derivative financial transactions	(34,948)	(18,260)
<b>Net Income/(Loss)</b>	<b>(27,285)</b>	<b>(22,833)</b>

Net trading income from derivative financial instruments includes gains and losses from spot and forward contracts, options, futures, and swaps due to changes in interest rates.

Net gains from investment securities amounting to TL 356 (2009: TL 6,208) comprise of net results on disposals of available for sale financial assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

### NOTE 27 - OTHER OPERATING EXPENSES

	2010	2009
<b>Staff costs</b>	<b>81,063</b>	<b>78,549</b>
Depreciation on property and equipment (Note 13)	5,233	5,035
Amortisation of intangible assets (Note 12)	899	880
<b>Depreciation and amortisation</b>	<b>6,132</b>	<b>5,915</b>
Operational lease expenses	13,064	11,673
Marketing and advertisement costs	1,365	54
Repair and maintenance expenses	722	591
Other	31,833	6,858
<b>General administrative expenses</b>	<b>46,984</b>	<b>19,176</b>
<b>Total</b>	<b>134,179</b>	<b>103,640</b>

Reserve for employment termination benefit, accrual for unused vacation rights and provision for personnel bonus are included in the staff costs in the table above.

### NOTE 28 -IMPAIRMENT LOSSES ON LOANS AND CREDIT RELATED COMMITMENTS

	2010	2009
Impairment losses on loans and receivables (Note 10)	(30,723)	(72,208)
Impairment losses on credit related commitments (Note 19)	1,404	-
<b>Total</b>	<b>(29,319)</b>	<b>(72,208)</b>

### NOTE 29 - ASSETS PLEDGED AND RESTRICTED

The Group has the following assets pledged as collateral:

	2010		2009	
	Assets	Related liability	Assets	Related liability
Trading securities (Note 8)	164,547	159,564	5,509	5,480
Investment securities (Note 11)	147,719	147,500	100,013	88,335
Other assets pledged <sup>(1)</sup>	15,934	-	8,844	-
<b>Total</b>	<b>328,200</b>	<b>307,064</b>	<b>114,366</b>	<b>93,815</b>

<sup>(1)</sup> Other assets pledged are the collaterals given to the counter parties of the derivative financial instruments and other collaterals given.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

Held for trading and held-to-maturity securities whose total carrying amount is TL 312,266 as of 31 December 2010 (2009: TL 105,522) are pledged to banks and other financial institutions against funds obtained under repurchase agreements (Note 15 and Note 16). Total amount of funds obtained under repurchase agreements is TL 307,064 as of 31 December 2010 (2009: TL 93,815).

Held for trading and held-to-maturity securities are also pledged to regulatory authorities for legal requirements and other financial institutions as a guarantee for stock exchange and money market operations. These are mainly the CBRT, ISE Settlement and Custody Bank and other financial institutions and amount to TL 60,752 (2009: TL 49,244).

At 31 December 2010, the Group's reserve deposits that are not available to finance the Group's day-to-day operations amount to TL 107,179 (2009: TL 69,942).

### NOTE 30 - COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of its activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in these financial statements, including letters of guarantee, acceptances and letters of credit. The following is a summary of significant commitments and contingent liabilities at 31 December.

#### Legal proceedings

Due to the nature of its business, the Group is involved in a number of claims and legal proceedings, arising in the ordinary course of business. The Group recognises provisions for such matters when, in the opinion of management and its professional advisors, it is probable that a payment will be made by the Group, and the amount can be reasonably estimated (Note 19).

In respect of the further claims asserted against the Group, which according to the principles outlined above, have not been provided for, it is the opinion of the management and its professional advisors that such claims are either without merit, can be successfully defended or will not have a material adverse effect on the Group's financial position.

#### Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as and if required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment.

The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

The following table shows the outstanding credit related commitments of the Group:

2010 <sup>(1)</sup>	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	1,351,843	-	-	-	1,351,843
Letter of guarantees	-	319,297	32,559	-	351,856
Acceptance credits	-	45,798	151,331	-	197,129
Other commitments	-	5,447	16,606	-	22,053
<b>Total</b>	<b>1,351,843</b>	<b>370,542</b>	<b>200,496</b>	<b>-</b>	<b>1,922,881</b>
2009 <sup>(1)</sup>	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	1,197,206	-	-	-	1,197,206
Letter of guarantees	-	190,844	54,783	-	245,627
Acceptance credits	1,473	37,878	77,734	-	117,085
Other commitments	-	-	13,226	-	13,226
<b>Total</b>	<b>1,198,679</b>	<b>228,722</b>	<b>145,743</b>	<b>-</b>	<b>1,573,144</b>

<sup>(1)</sup> Based on original maturities,

### NOTE 31 - SEGMENT ANALYSIS

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products and services provided. Secondary information is reported geographically.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

The Group is organized into two main business segments which are organized and managed separately according to the nature of the products and services provided.

2010	Commercial Banking	Investment Banking	Other	Group
Net interest income <sup>(1)</sup>	101,713	36,776	32,824	171,313
Net fees and commission income and other operating income <sup>(1)</sup>	50,488	(26,003)	(3,916)	20,569
Dividend income	-	464	-	464
(Provisions for)/recoveries from impairment loan receivables <sup>(1)</sup>	(30,591)	-	-	(30,591)
Other operating expenses <sup>(1)</sup>	(93,417)	(16,901)	(17,839)	(128,157)
<b>Profit before income tax</b>	<b>28,193</b>	<b>(5,664)</b>	<b>11,069</b>	<b>33,598</b>
Tax provision	-	(195)	(4,677)	(4,872)
<b>Profit from after income tax</b>	<b>28,193</b>	<b>(5,859)</b>	<b>6,392</b>	<b>28,726</b>
Non-controlling interest	-	-	2,314	2,314
<b>Net profit</b>	<b>28,193</b>	<b>(5,859)</b>	<b>8,706</b>	<b>31,040</b>
<b>Asset and liabilities</b>				
Segment assets	3,336,671	877,336	73,132	4,287,139
<b>Total assets</b>	<b>3,336,671</b>	<b>877,336</b>	<b>73,132</b>	<b>4,287,139</b>
Segment liabilities	2,517,149	1,050,322	227,193	3,794,664
Unallocated liabilities	-	-	492,475	492,475
<b>Total liabilities</b>	<b>2,517,149</b>	<b>1,050,322</b>	<b>719,668</b>	<b>4,287,139</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

2009	Commercial Banking	Investment Banking	Other	Group
Net interest income <sup>(1)</sup>	147,887	51,068	41,127	240,082
Net fees and commission income and other operating income <sup>(1)</sup>	43,563	(28,970)	(10)	14,583
Dividend income <sup>(1)</sup>	-	336	-	336
(Provisions for)/recoveries from impairment loan receivables <sup>(1)</sup>	(71,114)	(192)	-	(71,306)
Other operating expenses <sup>(1)</sup>	(81,040)	(15,763)	(13,067)	(109,870)
<b>Profit before income tax</b>	<b>39,296</b>	<b>6,479</b>	<b>28,050</b>	<b>73,825</b>
Tax provision	-	(68)	(13,641)	(13,709)
<b>Profit from after income tax</b>	<b>39,296</b>	<b>6,411</b>	<b>14,409</b>	<b>60,116</b>
Non-controlling interest	-	-	3,990	3,990
<b>Net profit</b>	<b>39,296</b>	<b>6,411</b>	<b>18,399</b>	<b>64,106</b>
<b>Asset and liabilities</b>				
Segment assets	2,773,297	814,963	53,725	3,641,985
<b>Total assets</b>	<b>2,773,297</b>	<b>814,963</b>	<b>53,725</b>	<b>3,641,985</b>
Segment liabilities	2,516,734	604,216	59,314	3,180,264
Unallocated liabilities	-	-	461,721	461,721
<b>Total liabilities</b>	<b>2,516,734</b>	<b>604,216</b>	<b>521,035</b>	<b>3,641,985</b>

<sup>(1)</sup> Classification differences with income statement exist since business reporting of the Bank was used.

### NOTE 32 - RELATED PARTY TRANSACTIONS

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 or operational decisions, The Group is controlled by Anadolu Endüstri Holding A.Ş. owning 77.71% of the ordinary shares.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise indicated.)

A number of transactions were entered into with related parties in the normal course of business.

(i) Balances with related parties:

	2010		2009	
	Total	Share in total %	Total	Share in total %
Loans and advances to customers, net	11,808	0.37	6,200	0.23
<b>Total assets</b>	<b>11,808</b>		<b>6,200</b>	
Due to customers	483,048	19.73	520,134	20.72
Obligations under finance leases	991	100.00	2,278	100.00
<b>Total liabilities</b>	<b>484,039</b>		<b>520,134</b>	
Derivative financial instruments	-	-	5,586	0.33
Credit related commitments	94,961	4.94	76,000	4.83
<b>Total commitments and contingent liabilities</b>	<b>94,961</b>		<b>81,586</b>	

(ii) Transactions with related parties:

	2010		2009	
	Total	Share in total %	Total	Share in total %
Interest income on loans and advances to customers	2,960	1.03	5,410	1.43
<b>Total interest and fee income</b>	<b>2,960</b>		<b>5,410</b>	
Interest expense on deposits	23,034	16.20	39,878	20.28
Other operating expense	1,776	1.32	2,964	2.86
<b>Total interest and fee expense</b>	<b>23,034</b>		<b>39,878</b>	

Salaries and other benefits paid to the Group's key management approximately amount to TL 6,964 as of 31 December 2010 (2009: TL 6,215).

### NOTE 33 - ASSETS UNDER MANAGEMENT

At 31 December 2010, the Group manages 6 (2009: 6) mutual funds which were established under Capital Markets Board Regulations. At 31 December 2010, the Funds' investment portfolio mainly includes government bonds, treasury bills and share certificates amounting to TL 51,115 (2009: TL 43,698). In accordance with the Funds' statute, the Group purchases and sells marketable securities for the Funds, markets their participation certificates and provides other services and charges management fees ranging from 0.005% to 0.012% (2009: 0.005% to 0.015%). At 31 December 2010, management fees earned by the Group amounted to TL 1,550 (2009: TL 1,460).

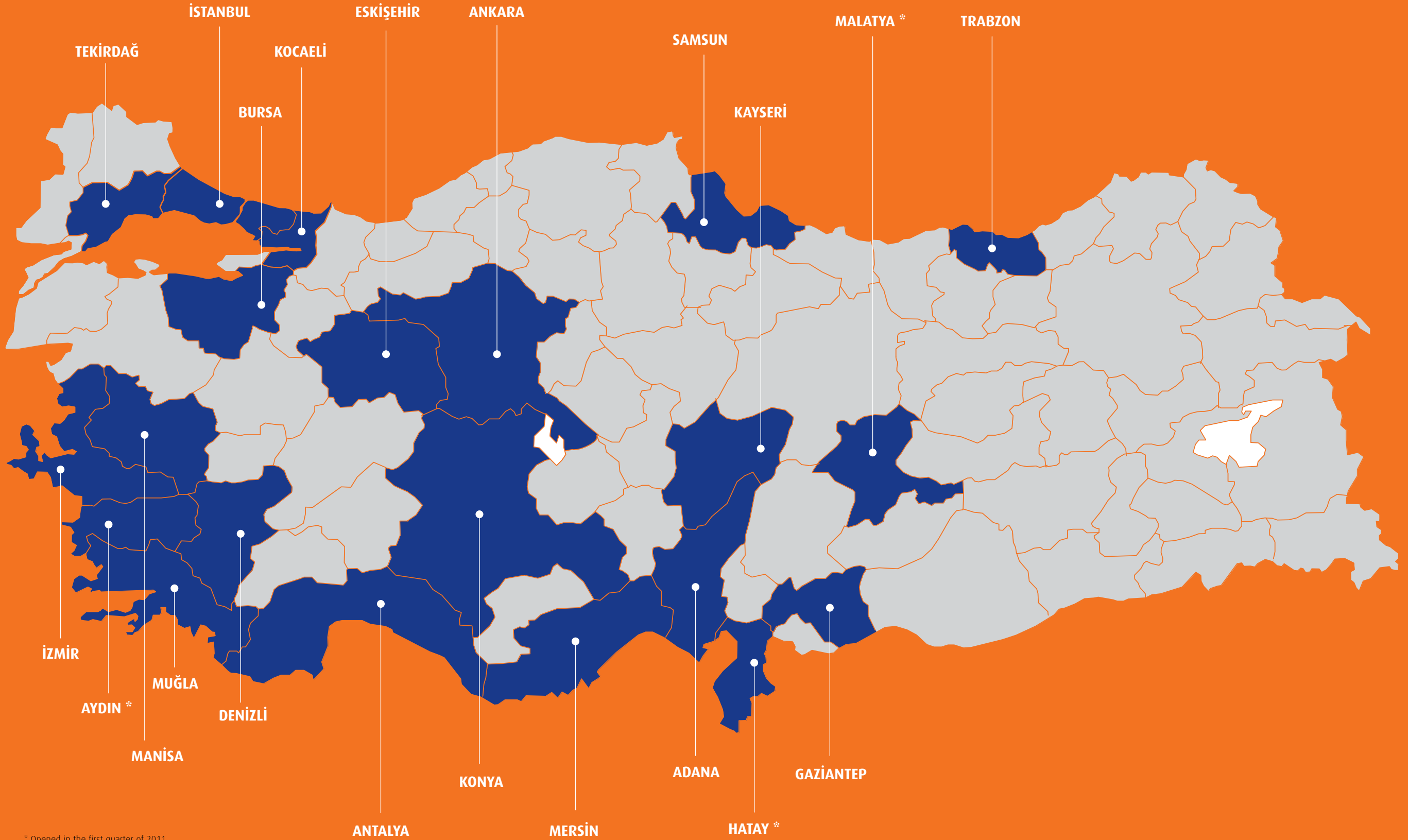
### NOTE 34 - POST BALANCE SHEET EVENTS

At 28 February 2011, TL 5,652 (2009: TL 6,114) has been paid to Group personnel as performance bonus. The related amount has been fully provisioned in these consolidated financial statements.

# DIRECTORY

City	Branch	Address	Phone	Fax
	Head Office	Cumhuriyet Cad. No: 46 Şişli 34367 İstanbul	+90 212 315 65 00	+90 212 233 15 00
	Operations Center	Kaptanpaşa Mah. Piyalepaşa Bulvarı Ortadoğu Plaza Kat: 13-14-15-16-17 No: 73 Şişli İstanbul	+90 212 314 27 00	+90 212 314 29 69
Adana	Adana Branch	Ziyapaşa Bulvarı Refah Apt. No: 29/A 01130 Adana	+90 322 459 18 88	+90 322 458 35 73
Ankara	Ankara Branch	Cinnah Cad. 56/14 06690 Çankaya Ankara	+90 312 442 21 40	+90 312 442 41 61
	Balgat Branch	Ceyhun Atuf Kansu Cad. No: 106 / A Çankaya Ankara	+90 312 472 18 00	+90 312 472 10 40
	Ostim Branch	Alinteri Bulvarı No: 80 06370 Ostim Ankara	+90 312 385 69 10	+90 312 385 69 20
	Siteler Branch	Demirhenderek Cad. No: 128 06160 Siteler Ankara	+90 312 348 34 00	+90 312 348 68 08
Antalya	Alanya Branch	Güllerpınarı Mah. Çevreyolu Cad. Bulvarı Palas Apt. No: 286 Dükkan No: 1 ve 2, Daire No: 3 Alanya Antalya	+90 242 511 06 08	+90 242 513 89 02
	Antalya Branch	Balbey Mah. İsmet Paşa Cad. No: 3-4 07040 Antalya	+90 242 243 22 03	+90 242 247 77 85
	Çallı Branch	Vatan Bulvarı Güvenlik Mah. 282 Sok. Kadri Melli İş Merkezi No: 10 /1 ve 3 Çallı Antalya	+90 242 345 36 80	+90 242 346 22 18
Aydın	Aydın Branch	Hasanefendi Mah. Hükümet Bulvarı 1905. Sokak No: 11 Merkez Aydın	+90 256 214 75 44	+90 256 214 43 12
Bursa	Bursa Branch	Kırcaali Mah. Kayalı Sok. Ortaklar İş Merkezi No: 34/ B 16220 Bursa	+90 224 272 68 80	+90 224 272 68 90
	Nilüfer Branch	İzmir Yolu Girişi F. S. M Bulvarı No: 128/19 16010 Bursa	+90 224 247 36 00	+90 224 245 40 97
Denizli	Denizli Branch	Saraylar Mah. 2. Ticari Yol No: 32 Bayramyeri 20100 Denizli	+90 258 262 42 62	+90 258 242 65 90
Eskişehir	Eskişehir Branch	Sakarya Cad. No: 56/A 26100 Eskişehir	+90 222 230 71 72	+90 222 230 70 92
Gaziantep	Gaziantep Branch	İncirli Mah. Prof. Muammer Aksoy Bulvarı F&H İş Merkezi No: 9-10 Şehitkamal Gaziantep	+90 342 215 31 15	+90 342 215 31 14
Hatay	Antakya Branch	Yavuz Selim Cad. Zühtüye Ökten Çarşısı A Blok No: 7-8-16 Antakya Hatay	+90 326 225 37 37	+90 326 225 37 08
İstanbul	Alltunizade Branch	Mahir İz Caddesi No: 20 A Blok Altunizade 34662 İstanbul	+90 216 474 74 88	+90 216 474 70 99
	Avcılar Branch	Cihangir Mah. E-5 Yanyol Düz Sok. No: 1 34840 Avcılar İstanbul	+90 212 422 24 10	+90 212 422 87 97
	Bakırköy Branch	İncirli Cad. No: 106 Bakırköy 34144 İstanbul	+90 212 542 56 54	+90 212 543 53 18
	Bakırköy Çarşı Branch	Cevizlik Mah. Hüsvreye Sok. No: 14 Bakırköy İstanbul	+90 212 660 30 46	+90 212 572 53 02
	Bayrampaşa Branch	Yeni Maltepe Cad. No: 2 Doğa Plaza 34030 Bayrampaşa İstanbul	+90 212 501 53 00	+90 212 501 43 15
	Caddebostan Branch	Bağdat Cad. Çetintaş Apt. No: 265 / A Caddebostan 34728 İstanbul	+90 216 363 49 90	+90 216 411 89 07
	Efes Merter Branch	Bahçelievler Mah. Şehit İbrahim Koparıç Cad No: 4 Bahçelievler İstanbul	+90 212 449 38 67	+90 212 677 55 13
	Güneşli Branch	Gülbahar Cad. Evren Mah. Günnur Sok No: 1 34212 Güneşli İstanbul	+90 212 550 63 53	+90 212 550 81 37
	Hadımköy Branch	Akçaburgaz Mah. Hadımköy Yolu No: 190 Esenyurt Hadımköy İstanbul	+90 212 886 85 50	+90 212 886 11 82
	İkitelli Branch	İkitelli Organize Sanayi Bölgesi Demirciler Sanayi Sitesi G-1 Blok No: 484 Küçükçekmece 34306 İstanbul	+90 212 671 46 43	+90 212 671 46 67
	İstanbul Leather and Industry Free Zone Branch	Hakkı Matraş Cad. No: 11 34953 Tuzla İstanbul	+90 216 394 26 67	+90 216 394 26 72
	Kartal Branch	Ankara Asfaltı Yan Yol. Kurfalı Mah. Kartal İş Merkezi B Blok 34861 Kartal İstanbul	+90 216 452 44 44	+90 216 452 44 37
	Kozyatağı Branch	Ankara Asfaltı Üzeri F. S. M. Hastanesi Yanı Umud Sok. No: 12 İçerenköy 34752 İstanbul	+90 216 574 79 74	+90 216 573 74 10
	Levent Branch	Sanayi Mah. Eski Büyükdere Cad. No: 31/A Kağıthane İstanbul	+90 212 280 62 10	+90 212 280 60 72
	Maltepe Branch	Atatürk Cad. No: 41 / 2 Maltepe İst	+90 216 442 00 85	+90 216 442 00 79
	Maslak Branch	Büyükdere Cad. Nurol Plaza No: 255-F Maslak 34398 İstanbul	+90 212 276 57 00	+90 212 276 43 72
	Main Branch	Cumhuriyet Cad. No: 46 A Şişli 34367 İstanbul	+90 212 315 65 00	+90 212 232 99 07
	Rami Topçular Branch	Rami Kışla Cad. Cicoz Yolu Bülent Kuşçu İş Merkezi No: 1 Eyüp İstanbul	+90 212 544 62 10	+90 212 544 62 40
	Sahra-i Credit Branch	Şemsettin Günaltay Cad. Osmanlı Sitesi No: 213 Erenköy 34738 İstanbul	+90 216 363 48 10	+90 216 360 03 20
	Sirkeci Branch	Bahçekapı Cad. No: 29 Arpacılar 34112 Sirkeci İstanbul	+90 212 511 95 09	+90 212 511 99 48
	Şişli Branch	Halaskargazi Cad. Çankaya Apt No: 150/ A Şişli 34371 İstanbul	+90 212 219 41 51	+90 212 219 41 63
	Tuzla Organized Industry Zone Branch	Kimya Sanayicileri Organize Sanayi Bölgesi Melek Aras Bulvarı A Blok No: 2 Kat: 2 Tuzla İstanbul	+90 216 593 17 99	+90 216 593 17 95
	Ümraniye - İmes Branch	İmes Sanayi Sitesi C Blok 302 Sok. No: 2 Yukarı Dudullu 34735 İstanbul	+90 216 364 53 53	+90 216 364 53 52
	Ümraniye Branch	Alemdağ Cad. No: 160 Ümraniye İstanbul	+90 216 505 70 20	+90 216 505 70 18
İzmir	Gaziemir Branch	Akçay Cad. No: 213/1 35410 Gaziemir İzmir	+90 232 252 55 77	+90 232 252 18 45
	İzmir Branch	Şehit Nevres Bulvarı No: 23/A Alsancak 35210 İzmir	+90 232 422 69 10	+90 232 463 90 19
	Karşıyaka Branch	Cemal Gürsel Cad. 164 /1 Karşıyaka 35600 İzmir	+90 232 369 99 00	+90 232 369 19 67
	Pınarbaşı Branch	Kemalpaşa Cad. No: 19 /A Zemin Kat Pınarbaşı 35060 İzmir	+90 232 479 90 10	+90 232 479 90 14
Kayseri	Kayseri Branch	Cumhuriyet Mah. Millet Cad. No: 36 38040 Kayseri	+90 352 222 11 11	+90 352 222 35 40
Kocaeli	Anadolu Sağlık Merkezi Branch	Cumhuriyet Mah. 2255. Sok. No: 3 Çayırova Gebze Kocaeli	+90 212 314 29 21	+90 262 653 63 14
	Gebze Branch	Osman Yıldız Mah. İstanbul Cad. No: 64 Gebze 41400 Kocaeli	+90 262 643 20 00	+90 262 643 61 44
	İzmit Branch	Karabaş Mah. Cumhuriyet Cad. No: 180 İzmit 41100 Kocaeli	+90 262 322 06 05	+90 262 322 06 30
Konya	Konya Branch	Fevzi Çakmak Mah Ankara Yolu Üzeri No 212 Karatay 42090 Konya	+90 332 342 54 66	+90 332 342 24 29
Malatya	Malatya Branch	İzzetiye Mah. Posta Cad. No: 14 Malatya	+90 422 324 95 95	+90 422 324 95 82
Manisa	Manisa Branch	75. Yıl Mah. Bahri Sarıtepe Cad. No: 67/A Manisa	+90 236 233 94 30	+90 236 236 03 78
Mersin	Mersin Branch	Camişerif Mah. İstiklal Cad. No: 32 33060 Mersin	+90 324 237 90 00	+90 324 237 78 71
Muğla	Bodrum Branch	Kıbrıs Şehitleri Cad. No 112 Bodrum 48400 Muğla	+90 252 313 90 07	+90 252 313 42 30
	Marmaris Branch	Tepe Mah. Ulusal Egemenlik Cad. 71. Sokak No: 1 Marmaris Muğla	+90 252 413 21 00	+90 252 413 21 13
Samsun	Samsun Branch	Merkez Kale Mah Kazım Paşa Cad. No: 21 55000 Samsun	+90 362 432 34 55	+90 362 432 63 87
Tekirdağ	Çorlu Branch	Kazimiye Mah. Omurtak Cad. Kılıçoğlu Plaza (Kipa Karşısı) A blok Zemin Kat No: 4 Çorlu 59850 Tekirdağ	+90 282 673 63 63	+90 282 673 63 73
Trabzon	Trabzon Branch	Kemer kaya Mah. Maraş Cad. Ahmet Selim Teymur Sokak No: 5 /A 61200 Trabzon	+90 462 322 31 55	+90 462 321 95 46

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