

**Türkiye Garanti Bankası Anonim Şirketi**  
**And Its Affiliates**  
Consolidated Financial Statements  
30 June 2011  
With Report on Review of Interim  
Financial Information Thereon

3 August 2011

This report contains the "Report on Review of Interim Financial Information" comprising 2 pages and; the "Consolidated Financial Statements and Their Explanatory Notes" comprising 79 pages.

**Türkiye Garanti Bankası Anonim Şirketi  
And Its Affiliates**

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To the Board of Directors of  
Türkiye Garanti Bankası A.Ş.  
İstanbul

## Report on Review of Interim Financial Information

### Introduction

We have reviewed the accompanying balance sheet of Türkiye Garanti Bankası A.Ş. (“the Bank”) and its consolidated affiliates as of 30 June 2011 and the related statements of comprehensive income, changes in equity and cash flows for the six month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards. Our responsibility is to express a conclusion on this interim financial information based on our review.

### Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Basis for Qualified Conclusion

As of the balance sheet date, the accompanying consolidated financial statements include a general provision amounting to TL 450,000 thousands, TL 90,000 thousands of which was charged to the income statement as expense in the current period provided by the Bank management in line with conservatism principle considering the circumstances which may arise from any changes in the economy or market conditions.



### Qualified Conclusion

Based on our review, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not present fairly, in all material respects, the financial position of the Bank and its consolidated affiliates as at 30 June 2011, and of its financial performance and its cash flows for the six month period then ended in accordance with International Financial Reporting Standards.

*DRT Bağımsız Denetim ve ŞMMM A.Ş.*

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

Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

İstanbul, 3 August 2011

**Türkiye Garanti Bankası AŞ And Its Affiliates**  
**Consolidated Statement of Financial Position**  
**At 30 June 2011**

(Currency: Thousands of Turkish Lira (TL))

	<u>Notes</u>	<u>30 June 2011</u>	<u>31 December 2010</u>
<b>Assets</b>			
Cash and balances with central banks	4	12,715,804	5,073,058
Financial assets at fair value through profit or loss	5	1,333,432	774,843
Loans and advances to banks	6	9,622,129	9,810,401
Loans and advances to customers	7.23	82,418,661	71,092,418
Other assets	9	8,557,037	6,710,657
Investment securities	10,22,23	36,060,943	40,361,866
Investments in equity participations	11	23,005	82,793
Tangible assets, net	12	1,599,537	1,584,660
Goodwill, net	13	32,948	33,170
Deferred tax asset	20	244,218	278,849
<b>Total Assets</b>		<b><u>152,607,714</u></b>	<b><u>135,802,715</u></b>
<b>Liabilities</b>			
Deposits from banks	14	3,216,058	2,808,006
Deposits from customers	15	81,312,474	76,295,528
Obligations under repurchase agreements	16	14,208,465	11,735,342
Loans and advances from banks	17	23,504,271	19,964,404
Bonds payable	18	3,387,553	-
Subordinated liabilities	19	1,047,605	978,054
Current tax liability	20	160,513	298,222
Deferred tax liability	20	10,091	391
Other liabilities and accrued expenses	21	8,359,721	6,849,940
<b>Total Liabilities</b>		<b><u>135,206,751</u></b>	<b><u>118,929,887</u></b>
<b>Equity attributable to owners of the bank</b>			
Share capital	22	5,143,353	5,146,371
Share premium	22	11,880	11,880
Unrealised gains on available-for-sale assets	10.22	831,449	1,627,351
Hedging reserve	22	(901)	(1,482)
Translation reserve	22	(900)	1,222
Legal reserves	22	763,947	553,459
Retained earnings	22	10,546,879	9,436,566
		<b><u>17,295,707</u></b>	<b><u>16,775,367</u></b>
<b>Non-controlling interests</b>	22	<b><u>105,256</u></b>	<b><u>97,461</u></b>
<b>Total Equity</b>		<b><u>17,400,963</u></b>	<b><u>16,872,828</u></b>
<b>Total Liabilities and Equity</b>		<b><u>152,607,714</u></b>	<b><u>135,802,715</u></b>
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The notes on pages 5 to 79 are an integral part of these consolidated financial statements.

**Türkiye Garanti Bankası AŞ And Its Affiliates**  
**Consolidated Statement of Comprehensive Income**  
**For The Six-Month Period Ended 30 June 2011**

(Currency: Thousands of Turkish Lira (TL))

<u>Notes</u>	<u>1 January 2011- 30 June 2011</u>	<u>1 April 2011- 30 June 2011</u>	<u>1 January 2010- 30 June 2010</u>	<u>1 April 2010- 30 June 2010</u>
<b>Statement of Income:</b>				
<b>Interest income:-</b>				
<i>Interest on loans</i>	3,189,284	1,635,199	2,762,127	1,377,589
<i>Interest on securities</i>	1,639,677	885,318	2,078,693	984,549
<i>Interest on deposits at banks</i>	148,619	77,054	210,719	107,560
<i>Interest on lease business</i>	76,031	38,589	69,593	33,142
<i>Others</i>	39,103	13,204	49,694	24,823
	<u>5,092,714</u>	<u>2,649,364</u>	<u>5,170,826</u>	<u>2,527,663</u>
<b>Interest expense:-</b>				
<i>Interest on saving, commercial and public deposits</i>	(1,841,687)	(955,247)	(1,744,925)	(905,681)
<i>Interest on borrowings and obligations under repurchase agreements</i>	(795,028)	(411,797)	(587,738)	(286,978)
<i>Interest on bank deposits</i>	(43,012)	(21,811)	(25,891)	(9,140)
<i>Interest on subordinated liabilities</i>	(30,478)	(15,032)	(29,875)	(15,738)
<i>Interest on bonds payable</i>	(51,045)	(40,736)	-	-
<i>Others</i>	(4,617)	(1,688)	(4,826)	(975)
	<u>(2,765,867)</u>	<u>(1,446,311)</u>	<u>(2,393,255)</u>	<u>(1,218,512)</u>
<b>Net interest income before provisions for loans and other credit risks</b>	<b>2,326,847</b>	<b>1,203,053</b>	<b>2,777,571</b>	<b>1,309,151</b>
<b>Provisions for loans and other credit risks, net</b>	<b>5,6,7,8,10, 21 (26,585)</b>	<b>(89,118)</b>	<b>39,229</b>	<b>37,347</b>
<b>Net interest income</b>	<b>2,300,262</b>	<b>1,113,935</b>	<b>2,816,800</b>	<b>1,346,498</b>
<i>Fee and commission income</i>	1,254,357	611,306	1,115,432	552,566
<i>Fee and commission expense</i>	(180,255)	(97,451)	(148,328)	(82,119)
<b>Net fee and commission income</b>	<b>27 1,074,102</b>	<b>513,855</b>	<b>967,104</b>	<b>470,447</b>
<i>Trading gains, net</i>	28 370,479	135,822	123,315	192,579
<i>Premium income from insurance business</i>	112,856	59,569	93,334	47,729
<i>Income on sale of assets</i>	246,005	185,118	4,077	2,838
<i>Foreign exchange gains, net</i>	-	-	138,913	-
<i>Other operating income</i>	151,378	102,620	77,377	41,733
<b>Other operating income</b>	<b>880,717</b>	<b>483,129</b>	<b>437,017</b>	<b>284,878</b>
<b>Total operating income</b>	<b>4,255,081</b>	<b>2,110,919</b>	<b>4,220,920</b>	<b>2,101,823</b>
<i>Salaries and wages</i>	(586,667)	(283,032)	(612,320)	(274,816)
<i>Credit card rewards and promotion expenses</i>	(189,983)	(99,027)	(132,796)	(62,545)
<i>Employee benefits</i>	21 (153,103)	(77,876)	(136,310)	(72,018)
<i>Impairment losses, net</i>	9,11,12,13,21 (131,078)	(5,841)	(4,151)	(2,353)
<i>Depreciation and amortization</i>	12 (117,794)	(59,326)	(93,844)	(46,058)
<i>Rent expenses</i>	(89,573)	(44,966)	(71,402)	(36,990)
<i>Communication expenses</i>	(68,139)	(35,651)	(77,095)	(37,831)
<i>Taxes and duties other than on income</i>	(64,109)	(34,237)	(59,592)	(29,108)
<i>Foreign exchange losses, net</i>	28 (46,413)	(66,301)	-	(108,765)
<i>Other operating expenses</i>	29 (424,521)	(211,546)	(454,923)	(228,454)
<b>Total operating expenses</b>	<b>(1,871,380)</b>	<b>(917,803)</b>	<b>(1,642,433)</b>	<b>(898,938)</b>
<b>Income before tax</b>	<b>2,383,701</b>	<b>1,193,116</b>	<b>2,578,487</b>	<b>1,202,885</b>
<i>Taxation charge</i>	20 (486,394)	(216,355)	(509,992)	(228,942)
<b>Net income for the period</b>	<b>1,897,307</b>	<b>976,761</b>	<b>2,068,495</b>	<b>973,943</b>
<b>Other Comprehensive Income:</b>				
<i>Foreign currency translation differences for foreign operations</i>	22 (829)	(6,988)	(16,732)	(4,625)
<b>Cash flow hedges:</b>				
<i>Effective portion of changes in fair value</i>	22 581	235	64	38
<i>Net amount transferred to income</i>	22 -	-	-	-
<b>Fair value reserves (available-for-sale financial assets):</b>				
<i>Net change in fair values</i>	22 (577,073)	(146,561)	(11,254)	(319,953)
<i>Net amount transferred to income</i>	22 (218,833)	(53,699)	(115,767)	(43,704)
<b>Other comprehensive income for the period, net of tax</b>	<b>(796,154)</b>	<b>(207,013)</b>	<b>(143,689)</b>	<b>(368,244)</b>
<b>Total Comprehensive Income for the Period</b>	<b>1,101,153</b>	<b>769,748</b>	<b>1,924,806</b>	<b>605,699</b>
<b>Net income attributable to:</b>				
<i>Equity holders of the Bank</i>	1,889,508	971,304	2,060,120	968,951
<i>Non-controlling interests</i>	7,799	5,457	8,375	4,992
<b>Total comprehensive income attributable to:</b>	<b>1,897,307</b>	<b>976,761</b>	<b>2,068,495</b>	<b>973,943</b>
<b>Total comprehensive income attributable to:</b>				
<i>Equity holders of the Bank</i>	1,093,358	764,284	1,916,401	600,679
<i>Non-controlling interests</i>	7,795	5,464	8,405	5,020
<b>Total comprehensive income attributable to:</b>	<b>1,101,153</b>	<b>769,748</b>	<b>1,924,806</b>	<b>605,699</b>
<b>Weighted average number of shares with a face value of Kr 1 each</b>	22 420 billions	420 billions	420 billions	420 billions
<b>Basic and diluted earnings per share (full TL amount per TL 1 face value each)</b>	<b>0.450</b>	<b>0.231</b>	<b>0.491</b>	<b>0.231</b>

The notes on pages 5 to 79 are integral part of these consolidated financial statements.

**Türkiye Garanti Bankası AŞ And Its Affiliates**  
**Consolidated Statement of Changes in Equity**  
**For The Six-Month Period Ended 30 June 2011**

(Currency: Thousands of Turkish Lira (TL))

	Notes	Share Capital	Share Premium	Unrealised Gains/(Losses) on Available-for-Sale Assets	Hedging Reserve	Translation Reserve	Legal Reserves	Retained Earnings	Non-Controlling Interests	Total Equity
<b>Balances at 31 December 2009</b>		<b>5,146,371</b>	<b>11,880</b>	<b>1,361,279</b>	<b>(2,167)</b>	<b>34,118</b>	<b>383,638</b>	<b>6,852,064</b>	<b>49,098</b>	<b>13,836,281</b>
Effect of corrections	22	-	-	-	-	-	-	(25,567)	-	(25,567)
<b>Restated balances at 31 December 2009</b>		<b>5,146,371</b>	<b>11,880</b>	<b>1,361,279</b>	<b>(2,167)</b>	<b>34,118</b>	<b>383,638</b>	<b>6,826,497</b>	<b>49,098</b>	<b>13,810,714</b>
Foreign exchange difference on foreign currency legal reserves	22	-	-	-	-	-	(515)	-	-	(515)
Transfer to legal reserves	-	-	-	-	-	-	171,915	(171,915)	-	-
Dividends paid	-	-	-	-	-	-	-	(350,000)	-	(350,000)
Net unrealised market value (losses)/gains from available-for-sale portfolio:	22	-	-	(11,284)	-	-	-	-	30	(11,254)
Net gains on available-for-sale assets transferred to income statement on disposal	-	-	-	(115,767)	-	-	-	-	-	(115,767)
Foreign currency translation differences for foreign operations	-	-	-	-	-	(16,217)	-	-	-	(16,217)
Net fair value gains from cash flow hedges	22	-	-	-	64	-	-	-	-	64
Adjustments to equity for a newly consolidated affiliate	-	-	-	-	-	-	-	(228,075)	27,457	(200,618)
Net income for six-month period	-	-	-	-	-	-	-	2,060,120	8,375	2,068,495
<b>Balances at 30 June 2010</b>		<b>5,146,371</b>	<b>11,880</b>	<b>1,234,228</b>	<b>(2,103)</b>	<b>17,901</b>	<b>555,038</b>	<b>8,136,627</b>	<b>84,960</b>	<b>15,184,902</b>
Foreign exchange difference on foreign currency legal reserves	-	-	-	-	-	-	(173)	-	-	(173)
Transfer to legal reserves	-	-	-	-	-	-	(1,406)	1,406	-	-
Net unrealised market value gains from available-for-sale portfolio	22	-	-	467,178	-	-	-	-	1	467,179
Net gains on available-for-sale assets transferred to income statement on disposal	-	-	-	(74,055)	-	-	-	-	-	(74,055)
Foreign currency translation differences for foreign operations	22	-	-	-	-	(16,679)	-	-	-	(16,679)
Net fair value gains from cash flow hedges	22	-	-	-	621	-	-	-	-	621
Adjustments to equity for newly consolidated affiliates	-	-	-	-	-	-	-	(52,097)	-	(52,097)
Net income for six-month period	-	-	-	-	-	-	-	1,350,630	12,500	1,363,130
<b>Balances at 31 December 2010</b>		<b>5,146,371</b>	<b>11,880</b>	<b>1,627,351</b>	<b>(1,482)</b>	<b>1,222</b>	<b>553,459</b>	<b>9,456,566</b>	<b>97,461</b>	<b>16,872,828</b>
Acquisition of treasury shares	22	(3,018)	-	-	-	-	-	-	-	(3,018)
Foreign exchange difference on foreign currency legal reserves	22	-	-	-	-	-	1,293	-	-	1,293
Transfer to legal reserves	-	-	-	-	-	-	209,195	(209,195)	-	-
Dividends declared	-	-	-	-	-	-	-	(570,000)	-	(570,000)
Net unrealised market value losses from available-for-sale portfolio	22	-	-	(577,069)	-	-	-	-	(4)	(577,073)
Net gains on available-for-sale assets transferred to income statement on disposal	-	-	-	(218,833)	-	-	-	-	-	(218,833)
Foreign currency translation differences for foreign operations	-	-	-	-	-	(2,122)	-	-	-	(2,122)
Net fair value gains from cash flow hedges	-	-	-	-	581	-	-	-	-	581
Net income for six-month period	22	-	-	-	-	-	-	1,889,508	7,799	1,897,307
<b>Balances at 30 June 2011</b>		<b>5,143,353</b>	<b>11,880</b>	<b>831,449</b>	<b>(901)</b>	<b>(900)</b>	<b>763,947</b>	<b>10,546,879</b>	<b>105,256</b>	<b>17,400,963</b>

The notes on pages 5 to 79 are an integral part of these consolidated financial statements.

**Türkiye Garanti Bankası AŞ And Its Affiliates**  
**Consolidated Statement of Cash Flows**  
**For The Six-Month Period Ended 30 June 2011**

(Currency: Thousands of Turkish Lira (TL))

	<u>Notes</u>	<u>1 January 2011- 30 June 2011</u>	<u>1 January 2010- 30 June 2010</u>
<b>Cash flows from operating activities:-</b>			
Interests and commissions received		4,577,064	4,044,508
Interests and commissions paid		(2,949,185)	(2,198,956)
Other operating activities, net		280,935	941,142
Cash payments to employees and suppliers		<u>(1,533,530)</u>	<u>(1,529,711)</u>
		375,284	1,256,983
<b>(Increase)/decrease in operating assets:-</b>			
Loans and advances to banks		76,268	(176,784)
Balances with central banks		(959,318)	(651,777)
Financial assets at fair value through profit or loss		(565,769)	(1,038,575)
Loans and advances to customers		(7,610,365)	(4,681,890)
Consumer loans		(3,515,286)	(2,362,824)
Other assets		(729,563)	(176,993)
<b>Increase/(decrease) in operating liabilities:-</b>			
Deposits from banks		405,215	(1,198,310)
Deposits from customers		4,966,573	5,059,477
Obligations under repurchase agreements		2,469,483	(5,807,747)
Other liabilities		1,362,491	640,496
<b>Net cash flows used in operating activities before taxes and duties paid</b>		<u>(3,724,987)</u>	<u>(9,137,944)</u>
<b>Income taxes and other duties paid</b>	20	<u>(378,085)</u>	<u>(700,627)</u>
<b>Net cash flows used in operating activities</b>		<u>(4,103,072)</u>	<u>(9,838,571)</u>
<b>Cash flows from investing activities:-</b>			
Net decrease in investment securities		3,204,141	1,996,963
Interest received for investment securities		1,700,639	2,043,106
Dividends received		5,577	1,599
Proceeds from sale of tangible assets		113,423	39,877
Purchase of tangible assets		(187,548)	(169,947)
<b>Net cash flows from investing activities</b>		<u>4,836,232</u>	<u>3,911,598</u>
<b>Cash flows from financing activities:-</b>			
Increase in loans and advances from banks, net		3,575,457	1,669,189
Increase in bonds payable		3,358,539	-
Increase/(decrease) in subordinated liabilities, net		68,636	(11,005)
Dividends paid		(570,000)	(350,000)
<b>Net cash flows from financing activities</b>		<u>6,432,632</u>	<u>1,308,184</u>
<b>Effect of exchange rate changes</b>		<u>354,056</u>	<u>166,493</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u>7,519,849</u>	<u>(4,452,296)</u>
Cash and cash equivalents at the beginning of the period		<u>6,895,898</u>	<u>9,294,333</u>
<b>Cash and cash equivalents at the end of the period</b>	2	<u>14,415,747</u>	<u>4,842,037</u>

The notes on pages 5 to 79 are an integral part of these consolidated financial statements.



## **Overview of the Bank**

Türkiye Garanti Bankası AŞ (the Bank) is a bank domiciled in Turkey. The consolidated financial statements of the Bank as of and for the six-month period ended 30 June 2011 comprise the Bank, its affiliates (the Affiliates) and their interest in associates.

### **(a) Brief History**

The foundation of the Bank was approved by the decree of the Council of Ministers numbered 3/4010 dated 11 April 1946 and “Articles of Association” was published in the official gazette dated 25 April 1946. The Bank provides retail, commercial, corporate and small and medium size enterprises (SME) banking, leasing, insurance, asset management and factoring services through a network of 772 domestic branches, six foreign branches, four representative offices abroad and 112 offices. In addition to its branches, the Bank has 100% ownership in three banks each of which is located in Amsterdam, Bucharest and Moscow. The Bank and its affiliates in total have 19,753 employees. The Bank’s head office is located at Levent Nispetiye Mahallesi Aytar Caddesi 2 Beşiktaş 34340 İstanbul.

### **(b) Ownership**

On 22 March 2011, Banco Bilbao Vizcaya Argentaria SA (“BBVA”) acquired 78.120.000.000 shares of the Bank owned by GE Capital Corporation a total nominal value of TL 781,200 thousands representing 18.60% ownership and 26.418.840.000 shares of the Bank owned by Doğu Holding AŞ at a total nominal value of TL 264,188 thousands representing 6.29% ownership.

Subsequently on 7 April 2011, BBVA acquired further 503.160.000 shares at a nominal value of TL 5,032 thousands and increased its ownership in the Bank’s share capital to 25.01%. As per the agreement between Doğu Holding AŞ and BBVA, if any of the parties acquires additional shares during the next five years, it is required to offer half of the acquired shares to other party, in case that other party does not accept to purchase the offered shares, usufruct rights shall be established on the voting rights of such shares in favour of other party. Accordingly, although BBVA has acquired additional shares in April, this does not affect their joint control on the Bank’s management.

As of 30 June 2011, the companies owned by Doğu Holding AŞ (“Doğu Group”) and by BBVA held 24.23% and 25.01% of the issued capital, respectively.

## **Significant accounting policies**

### **(a) Statement of compliance**

The Bank and its Turkish affiliates maintain their books of accounts and prepare their statutory financial statements in Turkish Lira (TL) in accordance with the Accounting Practice Regulations as promulgated by the Banking Regulatory and Supervisory Agency (BRSA); the Turkish Commercial Code; and the Turkish Tax Legislation (collectively, Turkish GAAP); the Bank’s foreign affiliates maintain their books of accounts and prepare their statutory financial statements in accordance with the generally accepted accounting principles and the related legislation applicable in the countries they operate.

The accompanying consolidated financial statements are based on the statutory records with adjustments and reclassifications for the purpose of fair presentation in accordance with International Financial Reporting Standards (“IFRS”). The accompanying consolidated financial statements are authorized for issue by the directors on 3 August 2011.

## **Significant accounting policies (continued)**

### **(b) Basis of preparation**

The accompanying consolidated financial statements are presented in thousands of TL, which is the Bank's functional currency.

The financial statements are prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except that the following assets and liabilities are stated at their fair value if reliable measures are available: derivative financial instruments, instruments at fair value through profit or loss, available-for-sale financial assets and tangible assets held for sale. Recognized assets and liabilities that are hedged are stated at fair value in respect of the risk that is hedged.

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

### **(c) Use of estimates and judgements**

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

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

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are in Notes 7, 9, 10, 12, 13, 17, 18, 20, 21, 23, 24 and 30.

### **(d) Basis of consolidation**

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

#### *Affiliates*

Affiliates are entities controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of affiliates are included in the consolidated financial statements from the date that control commences until the date that control ceases.

#### *Associates*

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

### **Significant accounting policies (continued)**

#### *Special purpose entities*

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

#### *Transactions eliminated on consolidation*

Intercompany balances and transactions, and any unrealized gains and losses arising from intercompany transactions, are eliminated in the accompanying consolidated financial statements.

Unrealized gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Bank and its affiliates' interest in the entity. Unrealized gains arising from transactions with associates are eliminated against the investment in the associate. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

### **(e) Foreign currency**

#### *Foreign currency transactions*

Transactions in the financial statements of the Bank are recorded in TL, which is the Bank's functional currency and the presentation currency for the accompanying consolidated financial statements. Transactions in foreign currencies are translated into the functional currency of the Bank at exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are converted into TL at the exchange rates ruling at date of the statement of financial position with the resulting exchange differences recognized in income as foreign exchange gain or loss. Gains and losses arising from foreign currency transactions are reflected in the statement of income as realized during the period.

#### *Financial statements of foreign operations*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to TL at foreign exchange rates ruling at the date of the statement of financial position. The revenues and expenses of foreign operations are translated to TL using average exchange rates. Foreign exchange differences arising on translation are recognized directly in a separate component of equity. When a foreign operation is disposed of in part or in full, the relevant amount in the foreign currency translation reserve is transferred to the statement of income.

*Hedge of net investment in a foreign operation see accounting policy (i).*

### **(f) Tangible assets and related depreciation**

#### *Owned assets*

The costs of the tangible assets purchased before 31 December 2005 are restated for the effects of inflation in TL units current at 31 December 2005 pursuant to IAS 29. The tangible assets purchased after this date are recorded at their historical costs. Accordingly, tangible assets are carried at costs, less accumulated depreciation and impairment losses (refer to accounting policy (s)).

**Significant accounting policies (continued)**

*Leased assets*

Leases in terms of which the Bank and its affiliates assume substantially all the risks and rewards of ownership are classified as financial leases. Tangible assets acquired by way of financial lease are stated at amounts equal to the lower of their fair values and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (refer to accounting policy (s)). Lease liabilities are reduced through repayments of principal, while the finance charge component of the lease payment is charged directly to the statement of income.

*Subsequent Expenditure*

Expenditures incurred to replace a component of a tangible asset that is accounted for separately, and major inspection and overhaul costs, are capitalized. Other subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the item of tangible assets. All other expenditures are reflected as expense in the statement of income as incurred.

*Depreciation*

Tangible assets purchased before 2005 are depreciated over their estimated useful lives on a straight-line basis from the date of their acquisition. Assets acquired after this date are depreciated based on the declining balance method. For the assets acquired after 1 January 2009, the straight-line depreciation method is in use.

The estimated useful lives and depreciation rates are as follows:

<i>Tangible assets</i>	<i>Estimated useful lives (years)</i>	<i>Depreciation Rates (%) from 1 January 2009</i>	<i>Depreciation Rates (%) from 1 January 2005</i>	<i>Depreciation Rates (%) before 1 January 2005</i>
Buildings	50	2	4	2
Vaults	20-50	2-20	4-40	2-20
Motor vehicles	5-7	15-20	30-40	15-20
Other tangible assets	4-20	5-25	10-50	5-25

The estimated useful lives, residual values and depreciation methods are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Expenditures for major renewals and improvement of tangible assets are capitalized and depreciated over the remaining useful lives of the related assets.

**(g) Goodwill**

Goodwill arose from business combinations and represents the excess of the total acquisition costs over the share of the Bank and its affiliates in the fair value of the net assets of the acquired companies at the dates of acquisitions. When the excess is negative, it is recognized immediately in the statement of income. Goodwill is assessed for indication of impairment at least annually using external and internal sources such as market value, information on any adverse effect on the acquired companies, market interest rates or other market rates of return on investments and carrying value of net assets. If any such indication exists, the recoverable amount of the goodwill is estimated. If the recoverable amount is less than the carrying amount, the carrying amount is reduced to its recoverable amount, and impairment loss is recognized as an expense in the statement of income. The losses arising from the impairment of goodwill are not reversed in a subsequent period.

## **Significant accounting policies (continued)**

### **(h) Financial instruments**

#### *Classification*

*Financial instruments at fair value through profit or loss* are those instruments that are principally held for the purpose of short-term profit taking. These include investments, certain purchased loans and derivative contracts that are not designated as effective hedging instruments, and liabilities from short-term sales of financial instruments. All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as trading assets. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as trading liabilities.

*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 Bank and its affiliates provide money, goods and services directly to a debtor with no intention of trading the receivable. Loans and receivables comprise loans and advances to banks and customers.

*Available-for-sale assets* are financial assets that are not held for trading purposes, provided by the Bank and its affiliates, or held to maturity. Available-for-sale instruments include certain debt and equity investments.

*Held-to-maturity assets* are financial assets with fixed or determinable payments and fixed maturity that the Bank and its affiliates have the positive intent and ability to hold to maturity. These include certain loans and advances to banks and customers and certain debt investments.

#### *Recognition*

Financial assets at fair value through profit or loss and available-for-sale assets are initially recognized on the transaction date at which the Bank and its affiliates become a party to the contractual provisions of the instrument. From this date any gains and losses arising from changes in fair value of the assets are recognized in the statement of income for the financial assets at fair value through profit or loss and in the other comprehensive income for available for-sale assets.

Held-to-maturity instruments, loans and receivables, deposits and subordinated liabilities are recognized in the statement of financial position on the date they are originated.

#### *Measurement*

Financial instruments are initially measured at cost, including transaction costs.

Subsequent to initial recognition all trading instruments and available-for-sale assets are measured at fair value, except for any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at amortized cost.

All non-trading financial liabilities, loans and receivables and held-to-maturity assets are measured at amortized cost less impairment losses. Amortized cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

## **Significant accounting policies (continued)**

### *Fair value measurement principles*

The fair values of financial instruments are based on their quoted market prices at the date of the statement of financial position without any deduction for transaction costs. If a quoted market price is not available, fair value of an instrument is estimated using the available market information and the appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates made are not necessarily indicative of the amounts that could be realized in current market exchange.

The fair values of derivatives that are not exchange-traded are estimated at the amounts that the Bank and its affiliates would receive or pay to terminate the contracts at the date of the statement of financial position taking into account current market conditions and the current creditworthiness of the counterparties.

### *Gains and losses on subsequent measurement*

Gains and losses arising from changes in the fair values of trading financial instruments are recognized in the statement of income. Whereas, gains and losses arising from changes in the fair value of cash flow hedges and available-for-sale assets are deferred as a separate component of equity until the hedged transaction impacts earnings or the available-for-sale assets are sold or impaired.

### *Specific instruments*

*Cash and balances with central banks:* Cash and balances with central banks comprise cash balances on hand, cash deposited with the central banks and other cash items. Money market placements are classified in loans and advances to banks.

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

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

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

### *Derecognition*

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

Available-for-sale assets and assets held for trading that are sold are derecognized and corresponding receivables from the buyer for the payment are recognized as of the date the Bank and its affiliates commit to sell the assets. The specific identification method is used to determine the gain or loss on derecognition.

### **Significant accounting policies (continued)**

Held-to-maturity instruments and loans and receivables are derecognized on the dates they are transferred by the Bank and its affiliates.

#### **(i) Derivatives held for risk management purposes**

Derivatives held for risk management purposes are measured at fair value in the statement of financial position. The treatment for the changes in their fair value depends on their classification into the following categories:

##### *Cash flow hedge*

When a derivative is designated as a hedge of the variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction that could affect the statement of income result, the effective portion of changes in the fair value of the derivative are recognised directly in the other comprehensive income and presented in the hedging reserve in equity. The amount recognised in the statement of comprehensive income is removed and included in the statement of income in the same period as the hedged cash flows affect the statement of income under the same line item as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in the statement of income.

If the derivative expires or is sold, terminated, or exercised, or no longer meets the criteria for cash flow hedge accounting, or the designation is revoked, then hedge accounting is discontinued and the amount recognized in the other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects the statement of income. If the forecast transaction is no longer expected to occur, then hedge accounting is discontinued and the balance in the other comprehensive income is recognized immediately in the statement of income.

##### *Fair value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in income immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in income relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to income from that date.

##### *Embedded derivatives*

Derivatives may be embedded in another contractual arrangement (a “host contract”). The Bank and its affiliates account for embedded derivatives separately from the host contract when the host contract is not itself carried at fair value through profit or loss, and the characteristics of the embedded derivatives are not clearly and closely related to the host contract. Separated embedded derivatives are accounted for depending on their classification, and are presented in the statement of financial position together with the host contract.

## **Significant accounting policies (continued)**

### **(j) Securities borrowing and lending business**

Investments lent under securities lending arrangements continue to be recognized in the statement of financial position and are measured in accordance with the accounting policy for the related assets as appropriate. Cash collateral received in respect of securities lent is recognized as liabilities to either banks or customers. Investments borrowed under securities borrowing agreements are not recognized. Cash collateral placements in respect of securities borrowed are recognized under loans and advances to either banks or customers. Income and expenses arising from the securities borrowing and lending business are recognized on an accrual basis over the period of the transactions and are included in interest income or expense.

### **(k) Repurchase and resale agreements over investments**

The Bank and its affiliates enter into purchases of investments under agreements to resell (reverse repo) substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognized. The amounts paid are recognized in loans to either banks or customers. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements (repo) are recognized in the statement of financial position and are measured in accordance with the accounting policy for the related assets as appropriate. The proceeds from the sale of the investments are reported as “obligations under repurchase agreements”, a liability account.

Income and expenses arising from the repurchase and resale agreements over investments are recognized on an accrual basis over the period of the transactions and are included in interest income or expense.

### **(l) Items held in trust**

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

### **(m) Financial guarantees**

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

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

### **(n) Employee benefits**

#### **(i) Defined benefit plan**

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

The Bank has a defined benefit plan (“the Plan”) for its employees namely Türkiye Garanti Bankası Anonim Şirketi Memur ve Müstahdemleri Emekli ve Yardım Sandığı Vakfı (“the Fund”). The Fund is a separate legal entity and a foundation recognized by an official decree, providing pension and post-retirement medical benefits to all qualified Bank employees.



### Significant accounting policies (continued)

This benefit plan is funded through contributions of both by the employees and the employer as required by Social Security Law numbered 506 and these contributions are as follows:

	<i>30 June 2011</i>	
	<i>Employer</i>	<i>Employee</i>
	<u>%</u>	<u>%</u>
Pension contributions	15.5	10.0
Medical benefit contributions	6.0	5.0

This benefit plan is composed of a) the contractual benefits of the employees, which are subject to transfer to Social Security Foundation (“SSF”) (“pension and medical benefits transferable to SSF”) (see Note 21) and b) other excess social rights and payments provided in the existing trust indenture but not transferable to SSF and medical benefits provided by the Bank for its constructive obligation (“excess benefits”).

#### *a) Pension and medical benefits transferable to SSF*

As discussed in Note 21, the Bank expects to transfer a portion of the obligation of the Fund to SSF. This transfer will be a settlement of that portion of the Fund’s obligation. Final legislation establishing the terms for this transfer was enacted on 8 May 2008. Although the settlement will not be recognized until the transfer is made, the Bank believes that it is more appropriate to measure the obligation as the value of the payment that would need to be made to SSF to settle the obligation at the date of the statement of financial position in accordance with the Temporary Article 20 of the Law No.5754: “Law regarding the changes in Social Insurance and General Health Insurance Law and other laws and regulations” (“New Law”). The pension disclosures set out in Note 21, therefore reflect the actuarial assumptions and mortality tables specified in the New Law, including a discount rate of 9.80%.

The pension benefits transferable to SSF are calculated annually by an independent actuary, who is registered with the Undersecretariat of the Treasury.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are directly charged to the statement of income.

#### *b) Excess benefits not transferable to SSF*

The excess benefits, which are not subject to the transfer, are accounted for in accordance with IAS 19, “Employee Benefits”. The obligation in respect of the retained portion of the defined benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value by using the projected unit credit method, and any unrecognized past service costs and the fair value of any plan assets are deducted.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are directly charged to the statement of income.

#### *(ii) Reserve for employee severance indemnity*

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank and its affiliates calculated in accordance with the Turkish Labor Law. In accordance with Turkish Labor Law, the Bank and its affiliates are required to make lump-sum payments to each employee whose employment is terminated due to retirement or before the retirement date for reasons other than resignation or misconduct and has completed at least one year of service.

### **Significant accounting policies (continued)**

Provision is made for the present value of the liability calculated using the projected unit credit method and all actuarial gains and losses are recognized immediately in the statement of income.

#### *(iii) Short-term employee benefits*

The Bank provided for undiscounted short-term employee benefits earned during the financial periods as per services rendered in compliance with IAS 19.

#### **(o) Operating leases**

Leases other than finance leases are classified as operating leases.

##### *As lessor*

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

##### *As lessee*

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### **(p) Taxes on income**

Taxes on income for the period comprise current taxes and deferred taxes. Current taxes on income comprises tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and; any adjustment in taxes payable for previous years.

Deferred income tax is provided, using the statement of financial position method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax liabilities and assets are recognized when it is probable that the future economic benefits resulting from the reversal of temporary differences will flow to or from the Bank and its affiliates. Deferred tax asset is recognized to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. Currently, enacted tax rates are used to determine deferred taxes on income.

An individual consolidated affiliate offsets deferred tax asset and deferred tax liability if the deferred tax asset and deferred tax liability relate to income taxes levied by the same taxation authority or where the legal right of offset exists.

### **Significant accounting policies (continued)**

Deferred taxes related to fair value remeasurement of available-for-sale assets and cash flow hedges, are charged or credited directly to equity and subsequently recognized in the statement of income together with the deferred gains or losses that are realized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

#### **(q) Offsetting**

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, there is a legally enforceable right to set off the amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses from a group of similar transactions.

#### **(r) Earnings per share**

Earnings per share disclosed in the accompanying consolidated statement of comprehensive income are determined by dividing net income by the weighted average number of shares outstanding during the period attributable to the shareholders of the Bank. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("Bonus Shares") to existing shareholders from retained earnings.

Additionally, considering the fact that the increase in the number of shares issued by way of bonus shares in fact does not require any cash injection by the shareholders; the number of issued shares outstanding before such bonus share issuances is adjusted for the proportionate change in the number of issued shares outstanding as if the event had occurred at the beginning of the earliest period reported.

#### **(s) Impairment**

Financial and non-financial assets are reviewed at each date of the statement of financial position to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated in order to determine the extent of the impairment loss, if any.

##### *Loans and receivables and held-to-maturity instruments*

The recoverable amounts of loans and receivables and held-to-maturity instruments, are calculated as the present values of the expected future cash flows discounted at the instrument's original effective interest rate. Short-term balances are not discounted.

Loans and receivables are presented net of specific and portfolio basis allowances for uncollectibility. Specific allowances are made against the carrying amount of loans and receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and receivable to their recoverable amounts. In assessing the recoverable amounts of the loans and receivables, the estimated future cash flows are discounted to their present value. Portfolio basis allowances are maintained to reduce the carrying amount of portfolios of similar loans and receivables to their estimated recoverable amounts at the date of financial position. The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest or penalties. Increases in the allowance

### **Significant accounting policies (continued)**

account are recognized in the statement of income. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly. If in a subsequent period, the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write-down or allowance is reversed through the statement of income.

#### *Financial assets remeasured to fair value*

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

Where an asset remeasured to fair value is impaired, the write-down is recognized in the statement of income.

If in a subsequent period, the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the statement of income.

#### **(t) Income and expense recognition**

##### *Interest income and expense*

Interest income and expense is recognized on an accrual basis by taking into account the effective yield of the asset or an applicable floating rate. Interest income and expense includes the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

##### *Fee and commission*

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

Other fees and commission income, including account servicing fees, investment management fees, sales commissions, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

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

##### *Net trading income*

Net trading income includes gains and losses arising from disposals of financial assets at fair value through profit or loss, available-for-sale, and from trading derivatives.

##### *Dividend income*

Dividend income is recognized in the statement of income when the right to receive payment is established.

##### *Insurance business*

*Premium income:* For short-term insurance contracts, premiums are recognized as income (earned premiums), net of premium ceded to reinsurer firms, proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired

### **Significant accounting policies (continued)**

risks at date of the statement of financial position is recognized as the reserve for unearned premiums that are calculated on a daily pro-rata basis. Premiums are shown before deduction of commissions and deferred acquisition cost, and are gross of any taxes and duties levied on premiums. For long-term insurance contracts, premiums are recognized as income when the premiums are due from the policyholders. Premiums received for long-term insurance contracts with discretionary participation feature (“DPF”), are recognized directly as liabilities.

*Unearned premium reserve:* Unearned premiums are those proportions of the premiums written in a period that relate to the period of risk subsequent to the date of the statement of financial position for all short-term insurance policies. In accordance with the incumbent legislation on the computation of insurance contract liabilities, unearned premium reserve set aside for unexpired risks as at the dates of the statements of financial position, has been computed on a daily pro-rata basis. The change in the provision for unearned premium is recognized in the statement of income in the order that income is recognized over the period of risk.

*Claims and provision for “outstanding” claims:* Claims are recognized in the period in which they occur, based on reported claims or on the basis of estimates when not reported. The claims provision is the total estimated ultimate cost of settling all claims arising from events, which have occurred up to the end of the accounting period. Full provision is accounted for outstanding claims, including claim settlements reported at the period-end. Incurred but not reported claims (“IBNR”) are also provided for under the provision for outstanding claims.

*Liability adequacy test:* At each statement of financial position date, asset-liability adequacy tests are performed to ensure the adequacy of the contract liabilities, net of related deferred acquisition costs. In performing these tests, current best estimates of future cash flows are used. Any deficiency is immediately charged to the statement of income.

*Income generated from pension business:* Income arising from asset management and other related services offered by the insurance affiliate of the Bank is recognized in the accounting period in which the service is rendered. Fees consist primarily of investment management fees arising from services rendered in conjunction with the issue and management of investment contracts where the insurance company actively manages the consideration received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the instrument. These services comprise the activity of trading financial assets in order to reproduce the contractual services. In all cases, these services comprise an indeterminate number of acts over the life of the individual contracts.

*Mathematical provisions:* Mathematical provisions are the provisions recorded against the liabilities of the insurance affiliate of the Bank to the beneficiaries of long-term life, health and individual accident policies based on actuarial assumptions. Mathematical provisions consist of actuarial mathematical provisions for long term insurance contracts, saving portion of the saving life products classified as investment contracts and related profit sharing reserves.

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

**Significant accounting policies (continued)**

Profit sharing reserves are the reserves provided against income obtained from asset backing saving life insurance contracts. These contracts entitle the beneficiaries of those contracts to a minimum guaranteed crediting rate per annum or, when higher, a bonus rate declared by the insurance affiliate from the eligible surplus available to date.

Mathematical provisions are presented under “other liabilities and accrued expenses” in the accompanying consolidated financial statements.

**(u) Non-current assets held for sale**

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

**(v) Segment reporting**

An operating segment is a component of the Bank and its affiliates that engage in business activities from which it may earn income and incur expenses, including income and expenses that relate to transactions with any of the Bank’s other components. All operating segments’ operating results are reviewed regularly by the management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

**(y) New standards and interpretations**

**New and revised IFRSs affecting presentation and disclosure**

- IAS 1 (Amendments Related to Annual Improvements 2010) Presentation of Financial Statements
- IFRS 7 (Amendments Related to Annual Improvements 2010) Financial Instruments: Disclosures

**New and revised IFRSs applied with no material effect on the consolidated financial statements**

- IAS 24 (Revised 2009) Related Party Disclosures
- IAS 32 (Amendments) Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements
- IFRS 1 First-Time Adoption of International Financial Reporting Standards (Additional Exemptions and Two Other Amendments)
- IFRIC 14 (Amendments) Pre-payment of a Minimum Funding Requirement
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- Annual Improvements 2010: IFRS1, IFRS3, IAS27, IAS34 and IFRIC 13

**New and revised IFRSs in issue but not yet effective**

- IFRS 7 Financial Instruments: Disclosures
- IFRS 9 Financial Instruments: Classification and Measurement
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interest in Other Entities
- IFRS 13 Fair Value Measurements
- IAS 1 Presentation of Financial Statements (2011) - Presentation of Items of Other Comprehensive Income
- IAS 12 Income Taxes
- IAS 19 Employee Benefits (2011) (Amendments)
- IAS 27 Separate Financial Statements (2011)
- IAS 28 Investments in Associates and Joint Ventures (2011)

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## 1 Segment reporting

The Bank has seven reportable segments from banking and other financial institutions, as described in the business segments part 1.2 below, which are the Bank's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the senior management reviews internal reports regularly. The following summary describes the operations in each of the Bank's reportable segments:

### 1.1 Geographical segments

The Bank and its affiliates operate principally in Turkey, but also have operations in the Netherlands, Russia, Turkish Republic of Northern Cyprus, Malta, Luxembourg, Germany and Romania. Total geographic sector risk concentrations, both on and off balance sheet, are presented in the table below:

	<i>30 June 2011</i>				
	<i>Loans and Advances to Customers</i>	<i>Total Assets</i>	<i>Total Liabilities</i>	<i>Non-Cash Loans</i>	<i>Capital Expenditures</i>
Turkey	76,212,569	131,828,864	94,898,881	16,342,203	136,288
England	150,470	5,989,976	13,088,324	154,515	-
Romania	3,308,736	5,584,261	1,084,795	152,440	13,163
Russia	454,705	1,721,822	380,420	101,608	65
USA	128,107	1,557,785	7,665,224	734,250	-
Germany	11,002	1,361,102	4,669,871	112,775	2
Netherlands	811,204	1,228,281	3,487,753	115,404	1,413
Switzerland	409,100	445,541	2,926,762	720,776	-
Luxembourg	12,805	215,739	906,956	241	-
France	13,156	94,479	1,115,753	105,796	-
Others	906,807	2,579,864	4,982,012	1,264,364	-
	<u>82,418,661</u>	<u>152,607,714</u>	<u>135,206,751</u>	<u>19,804,372</u>	<u>150,931</u>

	<i>31 December 2010</i>				
	<i>Loans and Advances to Customers</i>	<i>Total Assets</i>	<i>Total Liabilities</i>	<i>Non-Cash Loans</i>	<i>Capital Expenditures</i>
Turkey	65,605,637	118,216,029	88,277,672	13,336,122	334,498
England	175,821	5,682,802	10,154,230	209,929	-
Romania	2,871,155	3,464,205	774,968	53,624	60,549
Germany	941,963	1,743,943	2,709,229	244,860	1,651
Netherlands	83,222	1,576,966	6,179,918	746,744	-
Russia	258,909	1,438,459	295,614	52,273	34,131
USA	11,756	1,343,091	3,812,652	93,939	122
Luxembourg	353,357	383,684	1,014,358	529,663	-
Switzerland	11,416	201,097	999,589	225	-
France	44,280	46,076	687,394	118,852	-
Others	734,902	1,706,363	4,024,263	1,079,173	-
	<u>71,092,418</u>	<u>135,802,715</u>	<u>118,929,887</u>	<u>16,465,404</u>	<u>430,951</u>

Total geographic sector risk concentrations of the net income are presented in the table below:

	<i>Six-month period ended 30 June 2011</i>	<i>Three-month period ended 30 June 2011</i>	<i>Six-month period ended 30 June 2010</i>	<i>Three-month period ended 30 June 2010</i>
Turkey	1,674,486	901,275	2,030,396	1,025,006
Malta	109,763	16,373	(18,827)	(56,326)
Netherlands	50,855	24,738	44,313	25,436
Luxembourg	36,865	23,725	25,862	8,365
Others	25,338	10,650	(13,249)	(28,538)
	<u>1,897,307</u>	<u>976,761</u>	<u>2,068,495</u>	<u>973,943</u>



## 1 Segment reporting (continued)

### 1.2 Business segments

The main business segments are banking, leasing, insurance and factoring sectors. Banking segment information is detailed further to retail banking and commercial, corporate and SME banking as these are the major banking activities. Other operations heading under the banking segment include mainly treasury and investment banking activities as well as unallocated income and expense items. The analysis is as follows:

30 June 2011	Retail Banking	Commercial, Corporate & SME Banking	Other Operations	Total Banking	Leasing	Insurance	Factoring	Other Financial	Other Non-Financial	Combined	Eliminations	Total
Operating income	1,550,631	1,601,619	959,220	4,111,470	111,571	131,229	24,499	54,442	15,536	4,448,747	(193,666)	4,255,081
Operating expenses	(931,876)	(544,412)	(217,718)	(1,694,006)	(65,501)	(62,708)	(20,207)	(44,312)	(14,205)	(1,900,939)	29,559	(1,871,380)
Income from operations	618,755	1,057,207	741,502	2,417,464	46,070	68,521	4,292	10,130	1,331	2,547,808	(164,107)	2,383,701
Taxation charge	-	-	(459,569)	(459,569)	(11,969)	(13,902)	(374)	(285)	(295)	(486,394)	-	(486,394)
Net income for the period	618,755	1,057,207	281,933	1,957,895	34,101	54,619	3,918	9,845	1,036	2,061,414	(164,107)	1,897,307
Segment assets	25,819,044	55,078,737	64,649,353	145,547,134	2,409,808	2,726,105	1,202,784	506,356	26,755	152,418,942	(1,710,936)	150,708,006
Investments in equity participations	-	-	429,622	429,622	-	289	9,635	49	1,156	440,751	(417,746)	23,005
Unallocated assets	-	-	1,567,013	1,567,013	220,509	12,178	7,578	24,199	2,125	1,833,602	43,101	1,876,703
Total assets	25,819,044	55,078,737	66,645,988	147,543,769	2,630,317	2,738,572	1,219,997	530,604	30,036	154,693,295	(2,085,581)	152,607,714
Segment liabilities	48,300,483	31,617,188	50,860,932	130,778,603	2,166,998	2,354,749	1,160,720	412,478	8,248	136,881,796	(1,675,045)	135,206,751
Total equity	-	-	16,765,166	16,765,166	463,319	383,823	59,277	118,126	21,788	17,811,499	(410,536)	17,400,963
Total liabilities and equity	48,300,483	31,617,188	67,626,098	147,543,769	2,630,317	2,738,572	1,219,997	530,604	30,036	154,693,295	(2,085,581)	152,607,714

**Türkiye Garanti Bankası AŞ and Its Affiliates**  
Notes to Consolidated Financial Statements  
As of and for the Six-Month Period Ended 30 June 2011  
(Currency: Thousands of Turkish Lira (TL))

**1 Segment reporting (continued)**

	<u>30 June 2010</u>	<u>31 December 2010</u>									
	<u>Retail Banking</u>	<u>Commercial Corporate &amp; SME Banking</u>									
	<u>Other Operations</u>	<u>Total Banking</u>									
	<u>Leasing</u>	<u>Insurance</u>									
	<u>Factoring</u>	<u>Other Financial</u>									
	<u>Other Non-Financial</u>	<u>Combined</u>									
	<u>Eliminations</u>	<u>Total</u>									
Operating income	1,414,658	1,260,370	1,297,467	88,109	110,292	21,084	24,221	12,891	4,229,092	(8,172)	4,220,920
Operating expenses	(916,628)	(552,207)	(47,735)	(32,698)	(54,123)	(12,995)	(19,968)	(12,180)	(1,648,534)	6,101	(1,642,433)
<b>Income from operations</b>	<b>498,030</b>	<b>708,163</b>	<b>1,249,732</b>	<b>55,411</b>	<b>56,169</b>	<b>8,089</b>	<b>4,253</b>	<b>711</b>	<b>2,580,558</b>	<b>(2,071)</b>	<b>2,578,487</b>
Taxation charge	-	-	(485,524)	(10,759)	(11,293)	(1,549)	(659)	(208)	(509,992)	-	(509,992)
<b>Net income for the period</b>	<b>498,030</b>	<b>708,163</b>	<b>764,208</b>	<b>44,652</b>	<b>44,876</b>	<b>6,540</b>	<b>3,594</b>	<b>503</b>	<b>2,070,566</b>	<b>(2,071)</b>	<b>2,068,495</b>
<b>31 December 2010</b>											
Segment assets	22,305,253	46,723,135	58,910,687	2,365,519	2,363,319	1,570,267	500,690	24,702	134,763,572	(940,329)	133,823,243
Investments in equity participations	-	-	367,794	-	289	9,635	47	1,156	378,921	(296,128)	82,793
Unallocated assets	-	-	1,596,020	211,801	12,493	4,739	22,720	2,009	1,849,782	46,897	1,896,679
<b>Total assets</b>	<b>22,305,253</b>	<b>46,723,135</b>	<b>60,874,501</b>	<b>2,577,320</b>	<b>2,376,101</b>	<b>1,584,641</b>	<b>523,457</b>	<b>27,867</b>	<b>136,992,275</b>	<b>(1,189,560)</b>	<b>135,802,715</b>
Segment liabilities	44,596,689	29,942,712	39,171,331	2,149,322	2,046,871	1,516,065	416,197	8,990	119,848,177	(918,290)	118,929,887
Total equity	-	-	16,192,157	427,998	329,230	68,576	107,260	18,877	17,144,098	(271,270)	16,872,828
<b>Total liabilities and equity</b>	<b>44,596,689</b>	<b>29,942,712</b>	<b>55,363,488</b>	<b>2,577,320</b>	<b>2,376,101</b>	<b>1,584,641</b>	<b>523,457</b>	<b>27,867</b>	<b>136,992,275</b>	<b>(1,189,560)</b>	<b>135,802,715</b>

## 2 Cash and cash equivalents

Cash and cash equivalents include cash balances on hand, due from banks with original maturity periods of less than three months and other cash items. Cash and cash equivalents as of 30 June 2011 and 2010, included in the accompanying consolidated statements of cash flows are as follows:

	<i>30 June</i> <u>2011</u>	<i>30 June</i> <u>2010</u>
Cash at branches	877,186	668,501
Unrestricted balances with central banks	11,838,618	1,578,036
Placements at money markets	65,385	168,694
Loans and advances to banks with original maturity periods of less than three months	<u>1,634,558</u>	<u>2,426,806</u>
	<u>14,415,747</u>	<u>4,842,037</u>

## 3 Related party disclosures

For the purpose of this report, the shareholders jointly controlling the Bank namely Doğu Holding AŞ and BBVA (before 22 March 2011; GE Group) and all their subsidiaries, and their ultimate owners, directors and executive officers and the Bank's unconsolidated affiliates are referred to as related parties. During the course of the business, the Bank has made placements with and granted loans to related parties and also received deposits from them at various terms. The Bank had the following balances outstanding from and transactions with related parties:

### 3.1 Outstanding balances

	<i>30 June</i> <u>2011</u>	<i>31 December</i> <u>2010</u>
<i>Statement of financial position</i>		
Loans and advances to customers	<u>288,653</u>	<u>316,462</u>
<i>Loans granted in TL</i>	126,717	133,443
<i>Loans granted in foreign currencies:</i>		
US\$	59,820,000	43,755,921
EUR	28,545,334	57,180,850
RON	9,460	8,360
Miscellaneous receivables	2,999	2,098
Deposits received	2,105,234	656,858
<i>Commitments and contingencies</i>		
Non-cash loans	598,166	424,809
Derivatives	145,746	3,992

### 3.2 Transactions

	<i>Six-month</i> <i>period ended</i> <u>30 June 2011</u>	<i>Three-month</i> <i>period ended</i> <u>30 June 2011</u>	<i>Six-month</i> <i>period ended</i> <u>30 June 2010</u>	<i>Three-month</i> <i>period ended</i> <u>30 June 2010</u>
Interest income	11,820	4,952	11,310	4,882
Interest expense	27,331	21,257	18,184	10,716

In the first half of 2011, interest rates applied to foreign currency receivables from and payables to related parties vary within the ranges of 0.4%-7.7% and 0.2%-11.0% (31 December 2010: 1.0%-7.6% and 0.2%-11.0%), respectively. The interest rates applied to TL receivables from and payables to related parties vary within the ranges of 0.8%-14.0% and 5.0%-11.5%, respectively (31 December 2010: 0.8%-18.0% and 5.8%-11.5%). Various commission rates are applied to transactions involving guarantees and commitments.

### 3 Related party disclosures (continued)

No impairment losses or specific allowances have been recorded against balances outstanding during the period with related parties as of 30 June 2011 (30 June 2010: nil).

As per the shareholders' agreement dated 21 June 2007 between the Bank and Eureko BV, the Bank and its affiliates sold their 20% shares of Eureko Sigorta AŞ with a nominal value of TL 12,000 thousands to Eureko BV for EUR 70 millions.

On 27 May 2010, the Bank purchased the shares of D Netherlands Holding BV, established in the Netherlands, presenting 100% ownership at a price of EUR 53.5 millions from Doğuş Holding AŞ, and subsequent to this share purchase, the paid-in capital of D Netherlands Holding BV was increased by EUR 118.4 millions. D Netherlands Holding BV is the shareholder of Doğuş GE BV directly, and GE Garanti Bank SA, Motoractive IFN SA, Ralfi IFN SA and Domenia Credit IFN SA, all resident in Romania, indirectly through Doğuş GE BV. The paid-in capital of D Netherlands Holding BV was increased to EUR 247,088,600 from EUR 217,088,600 on 27 August 2010. The funding raised from this paid-in capital increase was used to increase the paid-in capitals of the financial subsidiaries under D Netherlands Holding BV and accordingly, the participation ratio of the Bank in these financial institutions increased from 70.00% to 73.27%. Subsequently, as per the decision made at the board of directors' meeting of the Bank held on 8 December 2010, the existing capital of D Netherlands Holding BV, established in the Netherlands and a fully owned subsidiary of the Bank, was increased by EUR 82,000,000. Following this capital increase, as per the decisions made at the board of directors' meeting of D Netherlands Holding BV held on 16 December 2010; Leasemart Holding BV, the Netherlands-based company, was acquired by D Netherlands Holding BV from GE Capital Corporation for a consideration of EUR 46.4 millions. Following this share purchase transaction, the percentage of shares owned indirectly by the Bank increased from 73.27% to 100% in the Romania-based subsidiaries which are Garanti Bank SA (formerly GE Garanti Bank SA), Motoractive IFN SA, Domenia Credit IFN SA and Ralfi IFN SA. The remaining amount of the increased share capital of D Netherlands Holding BV was utilized to increase the share capital of Garanti Bank SA by EUR 35 millions through Doğuş GE BV. As of 27 January 2011, D Netherlands Holding BV's name changed to Garanti Holding BV, and Doğuş GE BV's name changed to G Netherlands BV.

Key management personnel compensation for the six-month period ended 30 June 2011 amounted TL 83,059 thousands (30 June 2010: TL 68,126 thousands) on a consolidated basis. Within this total, individual key management expenses of the Bank amounted TL 61,725 thousands (30 June 2010: TL 50,692 thousands) and of its financial affiliates amounted TL 21,334 thousands (30 June 2010: TL 17,434 thousands).

### 4 Cash and balances with central banks

	<i>30 June</i>	<i>31 December</i>
	<u>2011</u>	<u>2010</u>
Cash at branches	877,186	914,337
Balances with central banks excluding reserve deposits	<u>11,838,618</u>	<u>4,158,721</u>
	<u>12,715,804</u>	<u>5,073,058</u>

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

	<b>30 June</b>				<b>31 December</b>
	<b>2011</b>				<b>2010</b>
	<u>Face</u>	<u>Carrying</u>	<u>Interest rate</u>	<u>Latest</u>	<u>Carrying</u>
	<u>value</u>	<u>value</u>	<u>range %</u>	<u>maturity</u>	<u>value</u>
<i>Debt and other instruments held at fair value:</i>					
Gold	-	575,298	-	-	80,853
Eurobonds	429,575	445,533	2-12	2041	9,424
Discounted government bonds in TL	87,699	80,024	7-9	2013	237,059
Government bonds in TL	56,442	59,192	7-10	2020	81,641
Government bonds-floating	26,899	27,862	7-21	2018	101,795
Investment fund	-	23,443	-	-	24,310
Government bonds indexed to CPI	15,847	21,853	7-23	2021	137,313
Treasury bills in TL	6,365	6,339	7-8	2011	63,748
Others		<u>58,200</u>			<u>14,509</u>
		1,297,744			750,652
<i>Equity and other non-fixed income instruments:</i>					
Listed shares		<u>35,688</u>			<u>24,191</u>
Total financial assets at fair value through profit or loss		<u>1,333,432</u>			<u>774,843</u>

Income from debt and other instruments held at fair value is reflected in the consolidated statement of comprehensive income as interest on securities. Gains and losses arising from trading of financial assets at fair value through profit or loss are recorded in net trading gains/(losses).

As of 30 June 2011, financial assets at fair value through profit or loss amounting to TL 196,287 thousands are blocked against asset management operation and securitizations (31 December 2010: TL 98 thousands) (refer to Note 10).

Government bonds and treasury bills include securities pledged under repurchase agreements with customers amounting to TL 196,312 thousands (31 December 2010: nil).

## 6 Loans and advances to banks

	30 June 2011			31 December 2010		
	<u>TL</u>	<u>Foreign Currency</u>	<u>Total</u>	<u>TL</u>	<u>Foreign Currency</u>	<u>Total</u>
<i>Loans and advances-demand</i>						
Domestic banks	1,188	1,474	2,662	1,030	2,197	3,227
Foreign banks	<u>127,781</u>	<u>1,435,584</u>	<u>1,563,365</u>	<u>141,728</u>	<u>1,193,984</u>	<u>1,335,712</u>
	<u>128,969</u>	<u>1,437,058</u>	<u>1,566,027</u>	<u>142,758</u>	<u>1,196,181</u>	<u>1,338,939</u>
<i>Loans and advances-time</i>						
Domestic banks	362,541	1,979,837	2,342,378	843,891	2,320,759	3,164,650
Foreign banks	<u>2,250,226</u>	<u>3,344,089</u>	<u>5,594,315</u>	<u>2,292,059</u>	<u>2,973,819</u>	<u>5,265,878</u>
	<u>2,612,767</u>	<u>5,323,926</u>	<u>7,936,693</u>	<u>3,135,950</u>	<u>5,294,578</u>	<u>8,430,528</u>
Placements at money markets	<u>65,050</u>	<u>335</u>	<u>65,385</u>	<u>2,030</u>	<u>-</u>	<u>2,030</u>
Income accrual on loans and advances to banks	<u>33,152</u>	<u>20,872</u>	<u>54,024</u>	<u>21,375</u>	<u>17,529</u>	<u>38,904</u>
Total loans and advances to banks	2,839,938	6,782,191	9,622,129	3,302,113	6,508,288	9,810,401
Less: allowance for uncollectibility	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net loans and advances to banks	<u>2,839,938</u>	<u>6,782,191</u>	<u>9,622,129</u>	<u>3,302,113</u>	<u>6,508,288</u>	<u>9,810,401</u>

As of 30 June 2011, majority of loans and advances-time are short-term with interest rates ranging between 1%-6% per annum for foreign currency time placements and 6%-11% per annum for TL time placements (31 December 2010: 1%-9% and 3%-10%, respectively).

As of 30 June 2011, loans and advances at domestic and foreign banks include blocked accounts of TL 6,269,450 thousands (31 December 2010: TL 5,872,428 thousands) held against securitizations, fundings and insurance business.

## 7 Loans and advances to customers

Outstanding loans and advances to customers are divided between economic sectors and loan types as follows:

	<i>30 June</i> <u>2011</u>	<i>31 December</i> <u>2010</u>
Consumer loans	25,842,307	22,327,021
<i>Mortgage loans</i>	8,978,207	8,119,429
<i>Credit card receivables</i>	8,480,326	7,689,576
<i>Auto loans</i>	933,969	782,059
<i>General purpose and other consumer loans</i>	7,449,805	5,735,957
Service sector	8,389,503	7,171,457
Energy	5,702,704	5,490,907
Construction	5,235,591	3,881,854
Transportation and logistics	4,035,273	3,515,850
Food	3,766,029	3,391,408
Textile	3,553,881	2,789,290
Metal and metal products	3,523,295	3,507,717
Transportation vehicles and sub-industry	2,708,144	2,246,514
Data processing	1,981,956	1,270,558
Tourism	1,752,846	1,390,895
Financial institutions	1,627,979	1,393,375
Agriculture and stockbreeding	1,229,632	1,118,373
Chemistry and chemical products	1,104,235	905,464
Stone, rock and related products	1,039,831	929,303
Durable consumption	1,012,932	807,841
Machinery and equipment	886,282	715,966
Mining	823,448	746,609
Electronic, optical and medical equipment	722,943	602,029
Plastic products	478,760	412,273
Paper and paper products	385,470	325,628
Others	<u>2,963,172</u>	<u>2,281,215</u>
Total performing loans	78,766,213	67,221,547
Financial lease receivables, net of unearned income (Note 8)	1,886,683	1,512,243
Factoring receivables	1,007,738	1,444,633
Income accrual on loans and lease receivables	957,720	818,891
Non-performing loans, factoring and lease receivables	2,095,525	2,553,057
Allowance for probable losses from loans, factoring and lease receivables	<u>(2,295,218)</u>	<u>(2,457,953)</u>
Loans and advances to customers	<u>82,418,661</u>	<u>71,092,418</u>

As of 30 June 2011, interest rates on loans granted to customers range between 1%-53% (31 December 2010: 1%-53%) per annum for the foreign currency loans and 1%-30% (31 December 2010: 1%-32%) per annum for the TL loans.

## 7 Loans and advances to customers (continued)

The provision for probable losses is comprised of amounts for specifically identified as being impaired and non-performing loans and advances and a further portfolio-basis amount considered adequate to cover the residual inherent risk of loss present in the lending relationships presently performing in accordance with agreements made with borrowers. The amount of the portfolio basis allowance is TL 348,814 thousands (31 December 2010: TL 283,461 thousands).

Movements in the allowance for probable losses on loans, factoring and lease receivables including the portfolio basis allowances, are as follows:

	<i>30 June</i> <u>2011</u>	<i>31 December</i> <u>2010</u>
Balance at the beginning of the period	2,457,953	2,288,659
Newly consolidated affiliates	-	94,937
Write-offs	(203,537)	(68,032)
Recoveries and reversals	(255,893)	(645,293)
Provision for the period	<u>296,695</u>	<u>787,682</u>
Balance at the end of the period	<u>2,295,218</u>	<u>2,457,953</u>

## 8 Financial lease receivables

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

The receivables are secured by way of the underlying assets. Loans and advances to customers include the following financial lease receivables:

	<i>30 June</i> <u>2011</u>	<i>31 December</i> <u>2010</u>
Financial lease receivables, net of unearned income (Note 7)	1,886,683	1,512,243
Add: non-performing lease receivables	289,859	306,224
Less: allowance for probable losses on lease receivable	<u>(111,014)</u>	<u>(108,594)</u>
	<u>2,065,528</u>	<u>1,709,873</u>
Income accrual on lease receivables	<u>11,718</u>	<u>9,935</u>

### *Analysis of net financial lease receivables*

Due within 1 year	911,167	837,198
Due between 1 and 5 years	1,273,094	993,274
Due after 5 years	<u>183,146</u>	<u>131,069</u>
Financial lease receivables, gross	2,367,407	1,961,541
Unearned income	<u>(301,879)</u>	<u>(251,668)</u>
Financial lease receivables, net	<u>2,065,528</u>	<u>1,709,873</u>

### *Analysis of net financial lease receivables*

Due within 1 year	783,088	718,297
Due between 1 and 5 years	1,115,298	871,073
Due after 5 years	<u>167,142</u>	<u>120,503</u>
Financial lease receivables, net	<u>2,065,528</u>	<u>1,709,873</u>



## 9 Other assets

	<u>30 June</u> <u>2011</u>	<u>31 December</u> <u>2010</u>
Reserve deposits at central banks	4,638,995	3,679,677
Insurance premium receivables	2,213,107	1,913,403
Accrued gains on derivatives	673,253	473,655
Miscellaneous receivables	441,425	170,517
Prepaid expenses, insurance claims and similar items	340,796	245,909
Tangible assets held for sale	91,672	104,033
Prepaid taxes and taxes and funds to be refunded	80,417	57,162
Others	<u>77,372</u>	<u>66,301</u>
	<u>8,557,037</u>	<u>6,710,657</u>

### *Reserve deposits at central banks*

Reserve deposits at the Central Bank of Turkey are kept as minimum reserve requirement. These funds are not available for the daily business of the Bank and its affiliates. As required by the Turkish Banking Law, these reserve deposits are calculated on the basis of TL and foreign currency liabilities taken at the rates determined by the Central Bank of Turkey. The reserve deposits do not earn interest.

The reserve deposits at the Central Bank of the Netherlands, as required by the Dutch Banking Law, are calculated as 2% on all customer deposits with an original maturity less than 2 years and 2% on bank deposits of non-EU banks with an original maturity less than 2 years.

The banks operating in Romania are obliged to keep minimum reserve requirements in accounts held with Romanian Central Bank (NBR). The reserve requirements are to be held in RON for RON liabilities and in Euro or US\$ for foreign currency liabilities. Currently, in line with stipulations of related legislation in force, the rates for reserve requirements are 15% for RON denominated liabilities with a remaining maturity less than 2 years and 20% for foreign currency denominated liabilities with an remaining maturity less than 2 years excluding Romanian banks' fundings (31 December 2010: 15% and 25%, respectively). The interest rates paid by the NBR to banks for reserve requirements are subject of permanent update, currently the rates are 1.47% for RON reserves, 0.75% for Euro reserves and 0.37% for US\$ reserves.

The reserve deposits at the Central Bank of Russia are not available for the daily business, as required by the Russian Banking Law, these reserve deposits are calculated on the basis of RUR and foreign currency liabilities taken at the rates determined by the Central Bank of Russia. In accordance with the current legislation, the reserve deposit rates for RUR and foreign currency liabilities legal entities-nonresidents, including banks-nonresident (RUR and foreign currency liabilities) are 5.5%, individuals (RUR and foreign currency liabilities) and other liabilities are 4.0%.

### *Tangible assets held for sale*

The tangible assets held for sale is comprised of foreclosed real estate acquired by the Bank against its impaired receivables. Such assets are required to be disposed of within three years following their acquisitions per the Turkish Banking Law. This three year period can be extended by a legal permission from the regulators. In case of real estates held for sale, this requirement is valid only if the legal limit on the size of the real estate portfolio that a bank can maintain is exceeded. Currently, as the Bank is within this legal limit, it is not subject to the above requirement.

Impairment losses provided on real estates held for sale were determined based on the appraisals of independent appraisal firms. As of 30 June 2011, real estates held for sale have been impaired by TL 13,244 thousands (31 December 2010: TL 12,868 thousands).

As of 30 June 2011, the rights of repurchase on various tangible assets held for sale amounted to TL 1,500 thousands (31 December 2010: TL 6,293 thousands).

## 10 Investment securities

	30 June 2011				31 December 2010
	<u>Face value</u>	<u>Carrying value</u>	<u>Interest rate range %</u>	<u>Latest maturity</u>	<u>Carrying value</u>
<i>Debt and other instruments available-for-sale:</i>					
Government bonds indexed to CPI	8,183,984	11,064,480	6-20	2020	10,785,629
Government bonds at floating rates (a)	8,279,971	8,583,361	7-10	2017	9,334,262
Bonds issued by corporations (b)	3,061,266	3,103,419	1-12	2034	2,965,713
Treasury bills in TL	2,762,987	2,751,935	8	2011	4,872,880
Government bonds in TL	2,451,578	2,447,805	7-23	2020	2,118,851
Discounted government bonds in TL	1,620,505	1,561,933	8-10	2012	1,685,871
Bonds issued by foreign governments	1,146,484	1,159,438	5-11	2021	674,107
Bonds issued by financial institutions	455,498	551,981	3-17	2021	1,085,860
Eurobonds	266,041	277,204	5-12	2034	842,695
Others		<u>25,758</u>			<u>102,072</u>
Total securities available-for-sale		<u>31,527,314</u>			<u>34,467,940</u>
<i>Debt and other instruments held-to-maturity:</i>					
Government bonds in TL	2,175,083	2,026,372	18	2012	2,898,959
Eurobonds	1,350,157	1,354,393	7-8	2036	1,286,672
Government bonds at floating rates (a)	893,525	<u>916,646</u>	6-9	2014	<u>1,397,271</u>
		4,297,411			5,582,902
Income accrual on held-to-maturity portfolio		<u>236,218</u>			<u>311,024</u>
Total securities held-to-maturity		<u>4,533,629</u>			<u>5,893,926</u>
Total investment securities		<u>36,060,943</u>			<u>40,361,866</u>

(a) The interest rates applied on these securities are floating quarterly based on interest rates of government bond bids of the government.

(b) Bonds issued by corporations include credit linked notes with a total face value of US\$ 429,444,444 (31 December 2010: US\$ 730,555,556) and a total carrying value of TL 698,407 thousands (31 December 2010: TL 1,124,270 thousands).

Interest income from debt and other fixed or floating instruments is reflected in interest on securities, whereas, gains and losses arising from changes in the fair values of available-for-sale assets are deferred as a separate component of equity.

The impairment losses for the investment securities as of 30 June 2011 amount to TL 28 thousands (30 June 2010: TL 103 thousands).

Government bonds and treasury bills include securities pledged under repurchase agreements with customers amounting to TL 15,213,043 thousands (31 December 2010: TL 12,286,398 thousands).

## 10 Investment securities (continued)

The following table summarizes securities that were deposited as collaterals with respect to various banking, insurance and asset management transactions:

	<u>30 June 2011</u>		<u>31 December 2010</u>	
	<u>Face Value</u>	<u>Carrying value</u>	<u>Face Value</u>	<u>Carrying value</u>
Collateralized to foreign banks	17,894,100	18,877,381	6,831,761	7,343,009
Deposited at Istanbul Stock Exchange	1,944,940	2,794,372	6,731,321	8,611,298
Deposited at central banks for repurchase transactions	2,507,660	2,595,327	1,628,955	1,653,529
Deposited at CBT for interbank transactions	593,124	647,705	578,234	604,493
Deposited at CBT for foreign currency money market transactions	521,000	569,802	511,000	531,437
Deposited at Clearing Bank (Takasbank)	140,251	178,906	66,100	67,609
Others		<u>30,169</u>		<u>34,851</u>
		<u>25,693,662</u>		<u>18,846,226</u>

## 11 Investments in equity participations

	<u>30 June 2011</u>		<u>31 December 2010</u>	
	<u>Carrying Value</u>	<u>Ownership %</u>	<u>Carrying Value</u>	<u>Ownership %</u>
IMKB Takasbank AŞ	11,915	5.83	11,962	5.83
Eureko Sigorta AŞ	-	-	60,244	20.00
Others	<u>11,090</u>		<u>10,587</u>	
	<u>23,005</u>		<u>82,793</u>	

80% shares of a previously consolidated affiliate, Garanti Sigorta AŞ, owned by the Bank had been sold to Eureko BV on 21 June 2007. After the sale, the remaining 20% was reclassified as investments in equity participations and accounted for under the equity method of accounting. On 1 October 2007, the legal name of the company changed as Eureko Sigorta AŞ. In the second quarter of 2011, as per the same shareholders agreement dated 21 June 2007 between the Bank and Eureko BV, the Bank and its affiliates sold their remaining 20% shares of Eureko Sigorta AŞ with a nominal value of TL 12,000 thousands to Eureko BV for EUR 70 millions.

At the Bank's board of directors meeting held on 3 June 2009, it was decided to participate in the capital increase of Kredi Garanti Fonu AŞ by TL 4,000 thousands and to subscribe for future capital increases up to TL 4,000 thousands in restructuring of the company to build a three-shareholders structure including the Turkish Union of Chambers and Commodity Exchanges (TOBB), the Small and Medium Size Enterprises Development Organization (KOSGEB) and the banks. As per this decision, the Bank has paid TL 2,000 thousands of its capital commitment of TL 4,000 thousands on 15 October 2009 for the capital increase of Kredi Garanti Fonu AŞ decided on 11 September 2009.

## 11 Investments in equity participations (continued)

Others include “Garanti Konut Finansmanı Danışmanlık Hizmetleri AŞ” which was established as per the decision made during the board of directors meeting of the Bank on 15 September 2007 to provide consultancy and outsourcing services to banks, housing finance and mortgage finance companies. Its legal registration process was completed on 3 October 2007. The Bank owns 100% of the company shares. The share capital of the company amounting TL 750 is fully paid. This company is not consolidated in the accompanying consolidated financial statements as currently it does not have material operations compared to the consolidated performance of the Bank and its affiliates, instead it is recorded under investments in equity participations in “others” above and valued at cost.

IMKB Takasbank AŞ and other equity participations do not have a quoted market price in an active market and other methods of reasonably estimating their values would be inappropriate and impracticable, accordingly they are stated at cost, restated for the effects of inflation in TL units current at 31 December 2005.

There are no impairment losses charged to the statement of income for the investments in equity participations as of 30 June 2011 and 2010. The cumulative provisions for such impairment losses amounted to TL 3,152 thousands as of 30 June 2011 (31 December 2010: TL 3,455 thousands).

## 12 Tangible assets

Movement in tangible assets from 1 January to 30 June 2011 is as follows:

	<u>1 January</u>	<u>Additions</u>	<u>Effects of Movement in Exchange Rates</u>	<u>Disposals</u>	<u>30 June</u>
<i>Costs</i>					
Land and buildings	1,213,337	13,952	6,975	(19,227)	1,215,037
Furniture, fixture, equipments and motor vehicles	1,425,817	97,050	15,838	(102,445)	1,436,260
Leasehold improvements	<u>408,498</u>	<u>37,729</u>	<u>9,811</u>	<u>(6,056)</u>	<u>449,982</u>
	3,047,652	148,731	32,624	(127,728)	3,101,279
<i>Less: Accumulated depreciation</i>					
Buildings	270,625	13,170	1,371	(2,853)	282,313
Furniture, fixture, equipments and motor vehicles	931,459	61,534	3,519	(66,093)	930,419
Leasehold improvements	<u>211,670</u>	<u>43,099</u>	<u>2,858</u>	<u>(3,376)</u>	<u>254,251</u>
	1,413,754	117,803	7,748	(72,322)	1,466,983
<i>Construction in progress</i>	<u>39,395</u>	2,200	1,994	(4,583)	<u>39,006</u>
	1,673,293				1,673,302
<i>Impairment in value of tangible assets</i>	<u>(88,633)</u>				<u>(73,765)</u>
	<u>1,584,660</u>				<u>1,599,537</u>

## 12 Tangible assets (continued)

Movement in tangible assets from 1 January to 31 December 2010 is as follows:

	<u>1 January</u>	<u>Additions</u>	<u>Effects of Movement in Exchange Rates</u>	<u>Disposals</u>	<u>31 December</u>
<i>Costs</i>					
Land and buildings	1,138,775	94,033	(3,176)	(16,295)	1,213,337
Furniture, fixture, equipments and motor vehicles	1,273,239	226,637	(315)	(73,744)	1,425,817
Leasehold improvements	<u>336,407</u>	<u>99,850</u>	<u>1,511</u>	<u>(29,270)</u>	<u>408,498</u>
	2,748,421	420,520	(1,980)	(119,309)	3,047,652
<i>Less: Accumulated depreciation</i>					
Buildings	248,230	24,333	(164)	(1,774)	270,625
Furniture, fixture, equipments and motor vehicles	854,058	124,935	(856)	(46,678)	931,459
Leasehold improvements	<u>153,052</u>	<u>75,862</u>	<u>4,229</u>	<u>(21,473)</u>	<u>211,670</u>
	1,255,340	225,130	3,209	(69,925)	1,413,754
<i>Construction in progress</i>	<u>54,187</u>	10,431	537	(25,760)	<u>39,395</u>
	1,547,268				1,673,293
<i>Impairment in value of tangible assets</i>	<u>(98,610)</u>				<u>(88,633)</u>
	<u>1,448,658</u>				<u>1,584,660</u>

Depreciation expense for the six-month period ended and the three-month period ended 30 June 2011 amounts to TL 117,794 thousands and TL 59,326 thousands (the six month period ended 30 June 2010: TL 93,844 thousands and the three-month period ended 30 June 2010: TL 46,058 thousands, respectively).

Assessment of the independent appraiser firms have been taken into consideration in the determination of the impairment losses provided for land and buildings. As of 30 June 2011, land and buildings at a total net book value before impairment of TL 413,755 thousands (31 December 2010: TL 415,079 thousands) have been impaired by TL 73,765 thousands (31 December 2010: TL 88,633 thousands).

## 13 Goodwill

As of 30 June 2011, goodwill arises from the direct acquisitions of Garanti Yatırım Menkul Kıymetler AŞ, Garanti Finansal Kiralama AŞ, Garanti Emeklilik ve Hayat AŞ and Garanti Faktoring Hizmetleri AŞ consisting of the excesses of the total acquisition costs over net assets of these consolidated entities at the dates of their acquisition as follows:

	<u>30 June 2011</u>	<u>31 December 2010</u>
Garanti Yatırım Menkul Kıymetler AŞ	20,984	20,984
Garanti Faktoring Hizmetleri AŞ	6,697	6,697
Garanti Finansal Kiralama AŞ	5,233	5,233
Garanti Emeklilik ve Hayat AŞ	34	34
Eureko Sigorta AŞ	<u>-</u>	<u>222</u>
	32,948	33,170
Impairment of goodwill	<u>-</u>	<u>-</u>
	<u>32,948</u>	<u>33,170</u>

### 13 Goodwill (continued)

Impairment losses when necessary are provided for decrease in the net asset value of the consolidated entities by assessing their internal and external resources.

### 14 Deposits from banks

Deposits from banks comprise the following:

	<i>30 June</i> <u>2011</u>	<i>31 December</i> <u>2010</u>
Payable on demand	579,875	933,800
Term deposits	<u>2,628,965</u>	<u>1,869,825</u>
	3,208,840	2,803,625
Expense accrual on deposits from banks	<u>7,218</u>	<u>4,381</u>
	<u><u>3,216,058</u></u>	<u><u>2,808,006</u></u>

Deposits from banks include both TL accounts amounting TL 496,154 thousands (31 December 2010: TL 1,400,212 thousands) and foreign currency accounts amounting TL 2,712,686 thousands (31 December 2010: TL 1,403,413 thousands) in total. As of 30 June 2011, interest rates applicable to TL bank deposits and foreign currency bank deposits vary within ranges of 3%-14% and 1%-10% (31 December 2010: 4%-9% and 1%-12%), respectively.

### 15 Deposits from customers

Deposits from customers comprise the following:

	<i>30 June</i> <u>2011</u>			<i>31 December</i> <u>2010</u>
	<u><i>Demand</i></u>	<u><i>Time</i></u>	<u><i>Total</i></u>	<u><i>Total</i></u>
Foreign currency	7,446,507	29,404,802	36,851,309	33,076,835
Saving	2,768,189	25,832,664	28,600,853	26,724,580
Commercial	3,412,406	9,049,467	12,461,873	14,671,850
Public and other	<u>2,581,450</u>	<u>448,234</u>	<u>3,029,684</u>	<u>1,503,881</u>
	16,208,552	64,735,167	80,943,719	75,977,146
Expense accrual on deposits from customers	<u>13,000</u>	<u>355,755</u>	<u>368,755</u>	<u>318,382</u>
	<u><u>16,221,552</u></u>	<u><u>65,090,922</u></u>	<u><u>81,312,474</u></u>	<u><u>76,295,528</u></u>

As of 30 June 2011, interest rates applicable to TL deposits and foreign currency deposits vary within the ranges of 3%-14% and 1%-10% (31 December 2010: 5%-11% and 1%-12%), respectively.

### 16 Obligations under repurchase agreements

The Bank and its affiliates raise funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-bearing assets, depending on the prevailing interest rates.

## 16 Obligations under repurchase agreements (continued)

Assets sold under repurchase agreements comprise the following:

	<u>Carrying value</u>	<u>Fair value of underlying assets</u>	<u>Carrying amount of corresponding liabilities</u>	<u>Range of repurchase dates</u>	<u>Repurchase price</u>
<b>30 June 2011</b>					
Financial assets at fair value through profit or loss	196,312	196,312	193,013	Jul'11	193,030
Investment securities	<u>15,213,043</u>	<u>15,230,028</u>	<u>14,015,452</u>	Jul'11-May'14	<u>14,107,165</u>
	<u>15,409,355</u>	<u>15,426,340</u>	<u>14,208,465</u>		<u>14,300,195</u>
<b>31 December 2010</b>					
Investment securities	<u>12,286,398</u>	<u>12,317,980</u>	<u>11,735,342</u>	Jan-May'11	<u>11,741,751</u>

Expense accrual on obligations under repurchase agreements amounting to TL 29,063 thousands (31 December 2010: TL 25,423 thousands) is included in the carrying amount of corresponding liabilities.

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

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements. As of 30 June 2011, the maturities of the obligations varied from one day to 35 months and interest rates varied between 1%-8% (31 December 2010: 1%-5%).

## 17 Loans and advances from banks

Loans and advances from banks comprise the following:

	<u>30 June 2011</u>	<u>31 December 2010</u>
<u>Short-term borrowings</u>		
Domestic banks	1,250,823	1,553,692
Foreign banks	<u>7,462,903</u>	<u>5,420,485</u>
	8,713,726	6,974,177
<u>Long-term debts</u>		
Short-term portion	2,444,110	2,043,580
Medium and long-term portion	<u>12,131,474</u>	<u>10,696,096</u>
	14,575,584	12,739,676
Expense accrual on loans and advances from banks	<u>214,961</u>	<u>250,551</u>
	<u>23,504,271</u>	<u>19,964,404</u>

As of 30 June 2011, loans and advances from banks included various promissory notes amounting to TL 320,413 thousands in total with latest maturity by 2012 (31 December 2010: TL 215,593 thousands with latest maturity by 2011).

As of 30 June 2011, short-term borrowings included two one-year-syndicated-loan facilities to be utilized for general trade finance purposes including export and import contracts in two tranches of (i) US\$ 304,500,000 and EUR 782,500,000 with rates of Libor + 1.1% and Euribor + 1.1% per annum with the participation of 42 banks from 19 countries (equivalent of TL 2,302,444 thousands), (ii) US\$

## 17 Loans and advances from banks (continued)

316,400,000 and EUR 513,500,000 with the rates of Libor + 1.2% and Euribor + 1.2% per annum with the participation of 49 banks from 18 countries (equivalent of TL 1,697,457 thousands).

Long-term debts comprise the following:

	30 June 2011					31 December
	Interest rate%	Latest maturity	Amount in original currency	Short term portion	Medium and long term portion	Medium and long term debts
Deutsche Bank AG	11-13	2017	TL 701 millions	-	701,210	701,210
DPR Securitisation-VIII	3	2017	US\$ 350 millions	89,452	469,657	489,187
DPR Securitisation-IX	3	2018	EUR 180 millions	23,198	393,824	349,847
EIB	1-4	2021	US\$ 208 millions	-	332,368	315,750
DPR Securitisation-IV	1	2013	US\$ 254 millions	204,210	202,766	289,815
DPR Securitisation-V <sup>(*)</sup>	1-2	2013	US\$ 232 millions	172,430	199,447	271,136
DPR Securitisation-VI <sup>(**)</sup>	3	2016	US\$ 204 millions	103,059	222,666	260,423
DPR Securitisation-VI	1	2013	US\$ 210 millions	143,576	191,670	250,438
DPR Securitisation-XII	1	2016	EUR 100 millions	-	231,980	203,750
DPR Securitisation-XII	2	2022	EUR 75 millions	-	173,985	152,813
DPR Securitisation-XII	2	2022	EUR 75 millions	-	173,985	152,813
OPIC	3	2019	US\$ 100 millions	-	160,000	152,000
DPR Securitisation-VIII	3	2017	US\$ 100 millions	25,587	134,334	139,768
DPR Securitisation-VIII	1	2017	US\$ 100 millions	25,587	134,334	139,768
DPR Securitisation-III	1	2013	US\$ 110 millions	87,452	87,573	124,932
EBRD-II	1-2	2015	US\$ 60 millions	10,971	85,029	91,200
DPR Securitisation-VII	2	2014	US\$ 58 millions	26,626	66,514	75,489
EBRD-I	4	2014	EUR 38 millions	37,922	49,955	60,529
DPR Securitisation-VIII	1	2015	US\$ 33 millions	13,312	39,894	44,297
EBRD-III	3	2015	EUR 20 millions	-	46,396	40,750
DPR Securitisation-XIII	2	2016	US\$ 225 millions	-	360,000	-
DPR Securitisation-XIII	3	2016	EUR 50 millions	-	115,990	-
DPR Securitisation-VII				-	-	504,530
Others				1,480,728	7,557,897	5,885,651
				<u>2,444,110</u>	<u>12,131,474</u>	<u>10,696,096</u>

<sup>(\*)</sup> On 9 May 2009, the Bank completed a securitization (the "DPR Securitisation-X") transaction by issuance of certificates; a tranche of US\$ 225 millions with a maturity of four years to refinance the debt of US\$ 250 millions obtained in November 2005, as explained in subsequent paragraphs below, on an unwrapped basis with no cash effect on the consolidated financial statements.

<sup>(\*\*)</sup> On 8 September 2010, the Bank completed a securitization (the "DPR Securitisation-XI") transaction by issuance of certificates; a tranche of US\$ 214.5 millions with a maturity of six years to refinance the debt of US\$ 225 millions obtained in May 2006, as explained in subsequent paragraphs below, on an unwrapped basis with no cash effect on the consolidated financial statements.

In June 2011, the Bank completed a securitization (the "DPR Securitization-XIII") transaction, arranged by SMBC Nikko Securities America Inc., WestLB AG and Wells Fargo Securities LLC in the amount of US\$ 225 millions with five years maturity and by Standard Chartered Bank in the amount of EUR 50 millions with five years maturity.

In December 2010, the Bank completed a securitization (the "DPR Securitization-XII") transaction, with the involvement of European Investment Bank (EIB) in the amount of EUR 75 millions with 12 years maturity, by European Bank for Reconstruction and Development (EBRD) in the amount of EUR



## **17 Loans and advances from banks (continued)**

75 millions with 12 years maturity, by West LB in the amount of EUR 100 millions with five years maturity.

In September 2010, the Bank signed a loan agreement with EBRD (EBRD-III) in the amount of EUR 50 millions which consists of 2 tranches for the financing of SMEs. The first tranche in the amount of EUR 20 millions with five years maturity has been financed by EBRD while the second tranche in the amount of EUR 30 millions with one year maturity by Standard Chartered Bank.

In June 2010, the Bank drew a second loan tranche worth of US\$ 60,050,000 (equivalent of EUR 50 millions) with a maturity of 12 years, within the EUR 150,000,000 framework agreement signed with EIB on 25 November 2009. The fund will be used for the financing of the investment and working capital needs of SMEs located in Turkey. In December 2009, the Bank had been granted another funding by EIB again for the financing of SME loans in the amount of US\$ 147,680,000 (equivalent of EUR 100 millions) with a maturity of 12 years.

In May 2010, the Bank signed a credit agreement with EBRD (EBRD-II) for a loan in the amount of US\$ 60 millions which consists of two tranches. The loan, which is funded directly by EBRD with the 5-year tranche of US\$ 48 millions and by the Clean Technology Fund which is established by the International Bank for Reconstruction and Development (the World Bank) in consultation with other international financial institutions, developed and developing countries and development partners, with the 15-year tranche of US\$ 12 millions, will be utilized for the financing of the energy efficiency needs of the small sized enterprises.

In December 2009, the Bank signed a credit agreement with Overseas Private Investment Corporation (OPIC) for a facility for the financing of SMEs in the amount of US\$ 100 millions with a maturity of ten years.

In November 2009, the Bank signed a credit agreement with EBRD (EBRD-I) for a facility of EUR 50 millions. The facility, which is comprised of 3 tranches, will be on lent to small-sized enterprises. EUR 23.4 millions of the facility is funded from EBRD's own sources and has a maturity of five year while EUR 14.5 millions of the facility is funded by the Netherlands Development Finance Company (FMO) with a maturity of three years. EUR 12.1 millions of the facility is provided by a group of 6 banks from 4 countries with a maturity of one year.

In August 2008, the Bank completed a securitization (the "DPR Securitization-IX") transaction by issuance of certificates; a tranche of EUR 200 millions with ten years maturity from EIB.

In June 2007, the Bank completed a securitization (the "DPR Securitization-VIII") transaction by issuance of certificates; three tranches of US\$ 550 millions with ten years maturity wrapped by Ambac Assurance Corp., Financial Guaranty Insurance Corp. and XL Capital Assurance and a tranche of US\$ 50 millions with eight years maturity and no financial guarantee.

In January 2007, the Bank borrowed TL 435 millions from Deutsche Bank AG, London with a maturity of ten years at 12.93% annual fixed interest rate through a secured financing transaction. Accordingly, the Bank pledged US\$ 300 millions of cash collateral to Deutsche Bank AG, London. Subsequently, the Bank has entered into two more secured financing transactions with the same counterparty under the same collateral conditions and borrowed in total TL 266 millions in two separate transactions on 28 June and 3 July 2007 with maturity of ten years for each and pledged US\$ 100 millions of cash collateral for each. The funding costs are 11.30% and 11.35%, respectively. The cash collaterals earn annually US\$ libor floating interest rate.

## 17 Loans and advances from banks (continued)

In December 2006, the Bank completed a securitization (the “DPR Securitization-VII”) transaction by issuance of certificates: US\$ 400 millions tranche with a maturity of ten years and US\$ 100 millions tranche with a maturity of eight years. Both of the series were issued on an unwrapped basis.

In May 2006, the Bank completed a securitization (the “DPR Securitization-VI”) transaction by issuance of certificates: Euro 300 millions with a guarantee issued by MBIA Insurance Corp. with maturity of five years, US\$ 300 millions with no financial guarantee and a maturity of seven years and US\$ 225 millions with a guarantee issued by Ambac Assurance Corp. with maturity of ten years.

In November 2005, the Bank completed a securitization (the “DPR Securitization-V”) transaction by issuance of certificate: US\$ 150 millions with a guarantee issued by CIFG Inc. with a maturity of seven years, US\$ 250 millions with a guarantee issued by XL Capital Assurance with a maturity of eight years and US\$ 125 millions with no financial guarantee and a maturity of eight years. The XL Capital Assurance wrapped tranche was refinanced by the issuance of unwrapped notes in April 2009, with the maturity profile of the new series being kept identical to the refinanced series.

In September 2005, the Bank completed a securitization (the “DPR Securitisation-IV”) transaction by issuance of certificate: US\$ 150 millions with a guarantee issued by Financial Guaranty Insurance Corp. with a final maturity of seven years, US\$ 150 millions with a guarantee issued by Financial Security Assurance with a final maturity of eight years, US\$ 165 millions with a financial guarantee issued by Assured Guaranty Corp. with a final maturity of eight years, US\$ 110 millions with a financial guarantee issued by Radian Asset Assurance Inc. with a final maturity of seven years, US\$ 25 millions with no financial guarantee and a final maturity of 7 years.

In May 2005, the Bank completed a securitization (the “DPR Securitisation-III”) transaction by issuance of certificate: US\$ 300 millions with a guarantee issued by MBIA Insurance Corp., a final maturity of eight years.

The DPR securitization is a way of securitizing the Bank’s payment orders created via SWIFT MT 103 or similar payment orders in terms of US Dollar, Euro and GBP accepted as derived primarily from the Bank’s trade finance and other corporate businesses and paid through foreign depository banks.

## 18 Bonds payable

Bonds payable comprise of the following:

	<u>30 June 2011</u>		
	<u>Latest</u>		<u>Amount</u>
	<u>maturity</u>	<u>Interest rate %</u>	
Bonds payable of TL 2,500 millions	2012	7.68-8.54	2,085,707
Bonds payable of US\$ 300 millions	2016	3-Month Libor+2.50	480,000
Bonds payable of US\$ 500 millions	2021	6.25	<u>792,832</u>
			3,358,539
Expense accrual on bonds payable			<u>29,014</u>
			<u><u>3,387,553</u></u>

In May 2011, the Bank issued bills with a total face value of TL 750,000 thousands, interest rate of 8.54% and a maturity of 179 days in the domestic market.

In April 2011, the Bank has issued bills with a total face value of TL 750,000 thousands, a maturity of 176 days and interest rate of 8.41% in the domestic market, and USD 500 million 10-year fixed-rate notes with a maturity date of 20 April 2021 and coupon rate of 6.25% and USD 300 million 5-year

## 18 Bonds payable (continued)

floating-rate notes with a maturity date of 20 April 2016 and a coupon rate of 3-month libor + 2.50% in the international markets.

In January 2011, the Bank issued bills with a total face value of TL 1,000,000 thousands, interest rate of 7.68% and maturity of one year in the domestic market.

The Bank and its consolidated affiliates repurchased some of the Turkish Lira securities with a total face value of TL 343,150 thousands and netted off such securities in the accompanying consolidated financial statements in the current period.

## 19 Subordinated liabilities

Subordinated liabilities comprise of the following:

	<i>Latest maturity</i>	<i>30 June 2011</i>		<i>31 December 2010</i>
		<i>Interest rate %</i>	<i>Amount</i>	<i>Amount</i>
Subordinated debt of US\$ 500 millions	2017	6.95	799,709	759,469
Subordinated debt of EUR 50 millions	2021	Euribor+3.5	115,990	101,875
Subordinated bonds payable of EUR 30 millions	2016	Euribor+1.5	69,594	61,125
Subordinated deposits	2016	4.75-6	37,419	31,607
			1,022,712	954,076
Expense accrual on subordinated liabilities			24,893	23,978
			<u>1,047,605</u>	<u>978,054</u>

On 23 February 2009, the Bank has obtained a 12-year subordinated loan of EUR 50 millions due March 2021 from Proparco (Societe de Promotion et de Participation pour la Cooperation Economique SA) a company of the French Development Agency Group, with an interest of Euribor+3.5% and a repayment option for the Bank at the end of the seventh year.

On 5 February 2007, the Bank obtained a 10-year subordinated fixed-rate notes of US\$ 500 millions due February 2017 with a repayment option for the Bank at the end of the fifth year. The fixed rate notes with Political Risk Insurance provided by Steadfast (a subsidiary of Zurich American Insurance Company) received a rating of Baa1 by Moody's Investors Service and priced at par to yield 6.95% to investors for the first five years and then 7.95% annually.

On 29 September 2006, one of the Bank's consolidated affiliates issued its first floating rate note for EUR 30 millions, Euro-denominated lower tier-2 capital, priced at 99.30, arranged by Deutsche Bank and traded on the alternative market in Frankfurt.

As of 30 June 2011, subordinated deposits obtained by one of the Bank's consolidated affiliates amounted approximately to EUR 16 millions (equivalent of TL 37,419 thousands) (31 December 2010: EUR 16 millions, equivalent of TL 31,607 thousands).

## 20 Taxation

In Turkey, corporate income tax is levied at the rate of 20% on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes.

Dividends paid to the resident institutions and the institutions working through local offices or representatives in Turkey are not subject to withholding tax. As per the decisions no.2009/14593 and

## **20 Taxation (continued)**

2009/14594 of the Council of Ministers published in the Official Gazette no.27130 dated 3 February 2009, certain duty rates included in the articles no. 15 and 30 of the new Corporate Tax Law no. 5520 are revised. Accordingly, the withholding tax rate on the dividend payments other than the ones paid to the nonresident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions, is 15%. In applying the withholding tax rates on dividend payments to the nonresident institutions and the individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of the retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

Under the Turkish taxation system, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from prior years. There is no procedure for a final and definite agreement on tax assessments. Companies file their tax returns within four months following the end of the accounting year to which they relate. Tax returns and accounting records are open for five years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit the tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

In Turkey, the tax legislation does not permit a parent company and its affiliates to file a consolidated tax return. Therefore, the taxation charge, as reflected in the accompanying consolidated financial statements, represents the total amount of the taxation charge of each affiliate.

### *Investment allowance*

The Temporary Article 69 added to the Income Tax Law no.193 with the Law no.5479, which became effective starting from 1 January 2006, upon being promulgated in the Official Gazette no.26133 dated 8 April 2006, stating that taxpayers can deduct the amount of the investment allowance exemption which they are entitled to according to legislative provisions effective at 31 December 2005 (including rulings on the tax rate) only from the taxable income of 2006, 2007 and 2008. Accordingly, the investment incentive allowance practice was ended as of 1 January 2006. At this perspective, an investment allowance which cannot be deducted partially or fully in three years time was not allowed to be carried forward to the following years and became unavailable as of 31 December 2008. On the other side, the Article 19 of the Income Tax Law was annulled and the investment allowance practice was ended as of 1 January 2006 with effectiveness of the Article 2 and the Article 15 of the Law no.5479 and the investment allowance rights on the investment expenditures incurred during the period of 1 January 2006 and 8 April 2006 became unavailable.

However, at 15 October 2009, the Turkish Constitutional Court decided to cancel the clause no.2 of the Article 15 of the Law no.5479 and the expressions of "2006, 2007, 2008" in the Temporary Article 69 related to investment allowance mentioned above that enables effectiveness of the Law as of 1 January 2006 rather than 8 April 2006, since it is against the Constitution. Accordingly, the time limitations for the carried forward investment allowances that were entitled to in the previous period of mentioned date and the limitations related with the investments expenditures incurred between the issuance date of the Law promulgated and 1 January 2006 were eliminated. According to the decision of Turkish Constitutional Court, cancellation related with the investment allowance became effective with promulgation of the decision on the Official Gazette and the decision of the Turkish Constitutional Court was promulgated in the Official Gazette no.27456 dated 8 January 2010. The expression of "only for the years 2006, 2007 and 2008" in the temporary article no.69 of the Income Tax Law no.193 that was cancelled by the decision no.2009/144 of the Turkish Constitutional Court published in the Official Gazette dated 8 Ocak 2010 is revised by the Article 5 of the Law no.6009 effective with

## **20 Taxation (continued)**

the promulgation on the Official Gazette no.27659 dated 1 August 2010. As per the new regulation, the investment allowances that cannot be benefited and transferred to future periods due to insufficient income level of the relevant year, can be used without any year limitation, however the investment allowance amount to be considered in the determination of taxable income, will not exceed 25% of the income of the relevant year. In addition to this, it is also agreed that the corporate tax rate for the companies to benefit from investment allowance will be the current applicable tax rate (20%) instead of 30%.

According to the decision mentioned above, the investment allowances carried forward to the year 2006 due to the lack of taxable income and the investment allowances earned through the investments started before 1 January 2006 and continued after that date constituting economic and technical integrity will be used not only in 2006, 2007 and 2008, but also in the following years. In addition, 40% of investment expenditures that are realized between 1 January 2006 and 8 April 2006, within the context of the Article 19 of the Income Tax Law will have the right for investment allowance exemption.

### *Tax applications for foreign branches*

#### *NORTHERN CYPRUS*

According to the Corporate Tax Law of the Turkish Republic of Northern Cyprus no.41/1976 as amended, the corporate earnings (including foreign corporations) are subject to a 10% corporate tax and 15% income tax. This tax is calculated based on the income that the taxpayers earn in an accounting period. Tax base is determined by modifying accounting income for certain exclusions and allowances for tax purposes. The corporations cannot benefit from the rights of offsetting losses, investment incentives and amortisation unless they prepare and have certified their statements of financial position, statements of comprehensive income and accounting records used for tax calculations by an auditor authorized by the Ministry of Finance. In cases where it is revealed that the earnings of a corporation were not subject to taxation in prior years or the tax paid on such earnings are understated, additional taxes can be charged in the next 12 years following that the related taxation period. The corporate tax returns are filed in the tax administration office in April after following the end of the accounting year to which they relate. The corporate taxes are paid in two equal installments in May and October.

#### *MALTA*

The corporate earnings are subjected to a 35% corporate tax. This rate is determined by modifying accounting income for certain exclusions and allowances for tax purposes. The earnings of the foreign corporations' branches in Malta are also subject to the same tax rate that the resident corporations in Malta are subject to. The earnings of such branches that are transferred to their head offices are not subject to an additional tax. The prepaid taxes are paid in April, August and December in the related years. The prepayments can be deducted from the annual corporate tax calculated for the whole year earnings. The excess part of the corporate tax that is not covered by such prepayments is paid to the tax office in September.

#### *LUXEMBOURG*

The corporate earnings are subject to a 21% corporate tax. This rate is determined by modifying accounting income for certain exclusions and allowances for tax purposes. An additional 4% of the calculated corporate income tax is paid as a contribution to unemployment insurance fund. 3% of the taxable income is paid as municipality tax addition to corporate tax, the municipalities have right to

## **20 Taxation (continued)**

increase this rate up to 225%. The municipality commerce tax, which the Bank's Luxembourg branch subject to currently is applied as 6.75% of the taxable income. The tax returns are examined by the authorized bodies and in case of detected mistakes, the amount of the taxes to be paid, is revised. The amounts and the payment dates of prepaid taxes are determined and declared by the tax office at the beginning of the taxation period. The corporations whose head offices are outside Luxembourg, are allowed to transfer the rest of their net income after tax following the allocation of 5% of it for legal reserves, to their head offices.

Tax applications for foreign affiliates

### *THE NETHERLANDS*

In the Netherlands, corporate income tax is levied at the rate of 20% for tax profits up to EUR 200,000 and 25% for the excess part over this amount on the worldwide income of resident companies, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes for the related year. A unilateral decree for the avoidance of double taxation provides relief for resident companies from Dutch tax on income, such as foreign business profits derived through a permanent establishment abroad, if no tax treaty applies. There is an additional dividend tax of 5% computed only on the amounts of dividend distribution at the time of such payments. Under the Dutch taxation system, tax losses can be carried forward for nine years to offset against future taxable income. Tax losses can be carried back to one prior year. Companies must file their tax returns within nine months following the end of the tax year to which they relate, unless the company applies for an extension (normally an additional nine months). Tax returns are open for five years from the date of final assessment of the tax return during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings. The corporate income tax has been calculated using the nominal tax rate of 25% over the Dutch taxable income and 30% over the local taxable income of Germany branch.

### *ROMANIA*

The applicable corporate tax rate in Romania is 16%. The taxation system in Romania is continuously developing and is subject to varying interpretations and constant changes, which may become rarely retroactive. In Romania, tax periods remain open for tax audits for seven years. Tax losses can be carried forward to offset against future taxable income for seven years.

### *RUSSIA*

The applicable corporate tax rate in Russia is 20% (2% federal and 18% regional). The taxation system in the Russian Federation is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open for a longer period.

## 20 Taxation (continued)

The total provision for taxes on income is different than the amount computed by applying the Turkish statutory tax rate to income before provision for taxes as shown in the following reconciliation:

	<i>30 June</i>		<i>30 June</i>	
	<u>2011</u>	<u>%</u>	<u>2010</u>	<u>%</u>
Taxes on income per statutory tax rate	476,740	20.00	515,697	20.00
Provision for general banking risks	18,000	0.75	-	-
Disallowable expenses	6,315	0.26	5,868	0.23
Income items exempt from tax or subject to different tax rates	(16,224)	(0.68)	(23,743)	(0.92)
Others	<u>1,563</u>	<u>0.07</u>	<u>12,170</u>	<u>0.47</u>
Taxation charge	<u>486,394</u>	<u>20.40</u>	<u>509,992</u>	<u>19.78</u>

The taxation charge is comprised of the following:

	<i>For the six-month period ended</i>	
	<i>30 June</i>	<i>30 June</i>
	<u>2011</u>	<u>2010</u>
Current taxes	276,146	613,393
Deferred taxes	210,248	(103,401)
Taxation charge	<u>486,394</u>	<u>509,992</u>

The movement of current tax liability is as follows:

	<i>30 June</i>	<i>31 December</i>
	<u>2011</u>	<u>2010</u>
Balance at the beginning of the period	298,222	225,228
Current period taxation charge	276,146	1,058,191
Current taxes recognised under equity	(46,096)	(15,089)
Less: Corporate taxes paid during the period	(367,759)	(970,108)
Current tax liability	<u>160,513</u>	<u>298,222</u>

In accordance with the related regulation for prepaid taxes on income, such advance payments during the year are being deducted from the final tax liability for the period. Accordingly, the taxation charge on income is not equal to the final tax liability appearing on the statement of financial position.

## 20 Taxation (continued)

Deferred tax asset and liabilities are attributable to the items detailed in the table below:

	<i>30 June</i> <u>2011</u>	<i>31 December</i> <u>2010</u>
<i>Deferred tax asset</i>		
Impairment losses on loans	163,091	121,301
Discount on miscellaneous receivables	37,509	27,386
Short-term employee benefits	29,747	38,958
Reserve for employee severance indemnity	23,433	20,538
Impairment of equity participations and tangible assets	16,622	17,589
Accruals on credit card rewards	7,826	9,298
Tax exemption for leasing business	3,439	11,959
Pro-rata basis depreciation expenses	(9,777)	(13,847)
Prepaid expenses and promotions	(23,624)	(15,634)
Valuation difference on financial assets and liabilities	(26,971)	59,585
Others, net	<u>22,923</u>	<u>1,716</u>
Total deferred tax asset	<u>244,218</u>	<u>278,849</u>
<i>Deferred tax liability</i>		
Total deferred tax liability	<u>10,091</u>	<u>391</u>

As of 30 June 2011, there are not any deferred tax assets and liabilities that have not been recognized in the accompanying consolidated financial statements.

Movements in deferred tax assets and liabilities are detailed in the table below:

	<i>Opening</i> <i>balance</i>	<i>Recognized in</i> <i>income</i> <i>statement</i>	<i>Recognized</i> <i>in equity</i>	<i>Closing</i> <i>balance</i>
<i>30 June 2011</i>				
Impairment losses on loans	121,301	41,790	-	163,091
Discount on miscellaneous receivables	27,386	10,123	-	37,509
Short-term employee benefits	38,958	(9,211)	-	29,747
Reserve for employee severance indemnity	20,538	2,895	-	23,433
Impairment of equity participations and tangible assets	17,589	(967)	-	16,622
Accruals on credit card rewards	9,298	(1,472)	-	7,826
Tax exemption for leasing business	11,959	(8,520)	-	3,439
Pro-rata basis depreciation expenses	(13,847)	4,070	-	(9,777)
Prepaid expenses and promotions	(15,634)	(7,990)	-	(23,624)
Valuation difference on financial assets and liabilities	59,585	(252,618)	166,062	(26,971)
Others, net	<u>1,325</u>	<u>11,652</u>	<u>(145)</u>	<u>12,832</u>
Net deferred tax asset	<u>278,458</u>	<u>(210,248)</u>	<u>165,917</u>	<u>234,127</u>



## 20 Taxation (continued)

	<u>Opening balance</u>	<u>Recognized in income statement</u>	<u>Recognized in equity</u>	<u>Closing balance</u>
<b><u>31 December 2010</u></b>				
Impairment losses on loans	71,008	50,293	-	121,301
Discount on miscellaneous receivables	11,017	16,369	-	27,386
Short-term employee benefits	25,728	13,230	-	38,958
Reserve for employee severance indemnity	14,938	5,600	-	20,538
Impairment of equity participations and tangible assets	18,863	(1,274)	-	17,589
Accruals on credit card rewards	7,242	2,056	-	9,298
Tax exemption for leasing business	32,383	(20,424)	-	11,959
Pro-rata basis depreciation expenses	(17,795)	3,948	-	(13,847)
Prepaid expenses and promotions	(20,626)	4,992	-	(15,634)
Valuation difference on financial assets and liabilities	12,019	110,745	(63,179)	59,585
Others, net	(5,320)	6,816	(171)	1,325
Net deferred tax asset	<u>149,457</u>	<u>192,351</u>	<u>(63,350)</u>	<u>278,458</u>

### *Transfer pricing*

The article no.13 of the Corporate Tax Law describes the issue of transfer pricing under the title of “disguised profit distribution” by way of transfer pricing. “The General Communiqué on Disguised Profit Distribution by Way of Transfer Pricing” published at 18 November 2007, explains the application related issues on this topic.

According to this communiqué, if the taxpayers conduct transactions like purchase and sale of goods or services with the related parties where the prices are not determined according to the arm’s length principle, then it will be concluded that there is a disguised profit distribution by way of transfer pricing. Such disguised profit distributions will not be deducted from the corporate tax base for tax purposes.

As stated in the “7.1 Annual Documentation” section of this communiqué, the taxpayers are required to fill out the “Transfer Pricing, Controlled Foreign Entities and Thin Capitalization” form for the purchase and sale of goods or services conducted with their related parties in a taxation period, attach these forms to their corporate tax returns and submit to the tax offices.

## 21 Other liabilities and accrued expenses

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

	<i>30 June</i> <u>2011</u>	<i>31 December</i> <u>2010</u>
Blocked accounts against expenditures of card holders	3,269,740	2,789,408
Payables to insurance and reinsurance companies relating to insurance business	2,148,800	1,860,534
Accrued losses on derivatives	579,693	538,095
Provision for general banking risks	450,000	360,000
Payables to securities lending market	411,744	6,813
Insurance business related provisions	160,092	138,297
Transfer orders	153,811	81,356
Short-term employee benefits	143,245	190,508
Withholding taxes	129,600	131,558
Unearned income	125,690	121,336
Provision for non-cash loans	122,179	111,493
Miscellaneous payables	117,899	97,211
Reserve for employee severance indemnity	115,976	105,425
Payables to suppliers relating to financial lease activities	91,697	45,573
Expense accruals	80,468	87,467
Cheques at clearing house	73,921	15,589
Blocked accounts	44,509	44,073
Others	<u>140,657</u>	<u>125,204</u>
	<u>8,359,721</u>	<u>6,849,940</u>

As of 30 June 2011, the other liabilities and accrued expenses include a general provision amounting to TL 450,000 thousands (31 December 2010: TL 360,000 thousands) provided by the Bank in line with conservatism principle considering the circumstances which may arise from any changes in economy or market conditions under the name of provision for general banking risks in prior years.

### *Recognized liability for defined benefit obligations*

#### *(i) Defined benefit plan*

As a result of the changes in legislation described below, the Bank will transfer a substantial portion of its pension liability under the Plan to SSF. This transfer, which will be a settlement of the Bank's obligation in respect of the pension and medical benefits transferable to SSF, was originally set to be within three years from the enactment of the New Law in May 2008, however, has been postponed for two years as per the decision of the Council of Ministers published on 9 April 2011 as further explained below. The actual date of the transfer has not been specified yet. However, in the financial statements for the year ended 31 December 2007, the Bank has modified the accounting required by IAS 19 *Employee Benefits* as the Bank believes that it is more appropriate to measure the obligation, in respect of the benefits that will be transferred to SSF, at the expected transfer amount prior to the date on which the transfer and settlement will occur. The expected transfer amount is calculated based on the methodology and actuarial assumptions (discount rate and mortality tables) prescribed in the New Law. As such, this calculation measures the liability to be transferred at the expected settlement amount i.e., the expected value of the payment to be made to SSF to assume that obligation.

The obligation with respect to excess benefits is accounted for as a defined benefit plan under IAS 19.

## **21 Other liabilities and accrued expenses (continued)**

### **a) Pension and medical benefits transferable to SSF**

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

The Bank obtained an actuarial report regarding its obligations at 31 December 2006. This report, which was dated 12 February 2007, is from an actuary, who is registered with the Undersecretariat of the Treasury regarding this Fund in accordance with the Decree. Based on this Decree, the actuarial statement of financial position of the Fund has been prepared using a discount rate of 10.24% and the CSO 1980 mortality table. Based on the actuarial report, the assets of the plan exceed the amount that will be required to be paid to transfer the obligation at 31 December 2006. In accordance with the existing legislation at 31 December 2006, the pension and medical benefits within the social security limits were subject to transfer and the banks were not required to provide any excess social rights and payments.

On 22 March 2007, the Turkish Constitutional Court reached a verdict with regards to the suspension of the execution of the first paragraph of provisional article no.23 of the Turkish Banking Law, which requires the transfer of pension funds to SSF, until the decision regarding the cancellation thereof is published in the Official Gazette. The Constitutional Court stated in its reasoned ruling published in the Official Gazette numbered 26731, dated 15 December 2007 that the reason behind this cancellation was the possible loss of antecedent rights of the members of pension funds. Following the publication of the verdict, the Grand National Assembly of Republic of Turkey (“Turkish Parliament”) worked on the new legal arrangements by taking the cancellation reasoning into account. At 17 April 2008, the New Law has been accepted by the Turkish Parliament and the New Law has been enacted at 8 May 2008 following its publishment in the Official Gazette no 26870. In accordance with the New Law, members of the funds established in accordance with the Social Security Law should be transferred to SSF within three years following its enactment date. The transfers are to take place within the three-year period starting from 1 January 2008. Subsequently, the transfer of the contributors and the persons receiving monthly or regular income and their right-holders from such funds established for employees of the banks, insurance and reinsurance companies, trade chambers, stock markets and unions that are part of these organizations subject to the provisional article 20 of the Social Security Law no.506 to the SSF, has been postponed for two years. The decision was made by the Council of Ministers on 14 March 2011 and published in the Official Gazette no. 27900 dated 9 April 2011 as per the decision of the Council of Ministers, numbered 2011/1559, and as per the letter no. 150 of the Ministry of Labor and Social Security dated 24 February 2011 and according to the provisional article 20 of the Social Security and Public Health Insurance Law no.5510.

On 19 June 2008, Cumhuriyet Halk Partisi (“CHP”) had applied to the Constitutional Court for the cancellation of various articles of the Law including the first paragraph of the provisional Article 20. At the meeting of the Constitutional Court on 30 March 2011, it was decided that the article 73 and the first paragraph of the provisional Article 20 added to the law no. 5510 are not contradictory to the Constitutional Law, and accordingly the dismissal of the cancellation request has been denied with the majority of votes.

## 21 Other liabilities and accrued expenses (continued)

The Bank obtained an actuarial report dated 18 January 2011 from an independent actuary reflecting the principles and procedures on determining the application of transfer transactions in accordance with the New Law. The actuarial statement of financial position of the Fund has been prepared using a discount rate of 9.80% and the CSO 1980 mortality table, and the assets of the plan exceed the amount that would be required to be paid to transfer the obligation at 31 December 2010.

The Bank's obligation in respect of the pension and medical benefits transferable to SSF has been determined as the value of the payment that would need to be made to SSF to settle the obligation at the date of the statement of financial position in accordance with the related article of the New Law.

The pension disclosures set out below therefore reflect the methodology and actuarial assumptions specified in the New Law. This calculation measures the benefit obligation at the expected transfer amount i.e., the estimated amount the Bank will pay to SSF to assume this portion of the obligation.

The pension benefits are calculated annually, as per the calculation as of 31 December 2010 the present value of funded obligations amounted to TL 68,487 thousands and the fair value of the planned assets amounted to TL 1,020,383 thousands

	<i>31 December</i>
	<u>2010</u>
Present value of funded obligations	
- Pension benefits transferable to SSF (obligation measured at the expected transfer amount)	(315,823)
- Medical benefits transferable to SSF (obligation measured at the expected transfer amount)	266,382
- General administrative expenses	<u>(19,046)</u>
	(68,487)
Fair value of plan assets	<u>1,020,383</u>
Asset surplus in the plan (*)	<u>951,896</u>

(\*) *Asset surplus in this plan will be used as plan assets of the excess benefit plan.*

Plan assets consisted of the following:

	<i>31 December</i>
	<u>2010</u>
Cash and due from banks	737,038
Securities	185,595
Land and buildings	<u>97,750</u>
	<u>1,020,383</u>

### b) Excess benefits not transferable to SSF

The other social rights and payments representing benefits in excess of social security limits are not subject to transfer to SSF. Therefore these excess benefits are accounted for as an ongoing defined benefit plan.

Asset surplus/(shortage) on present value of defined benefit obligation was as follows:

	<i>31 December</i>
	<u>2010</u>
Present value of defined benefit obligations	
- Pension	(242,307)
- Health	(205,251)
Fair value of plan assets (*)	<u>951,896</u>
Asset surplus over present value of defined benefit obligation	<u>504,338</u>

(\*) *Plan assets are composed of asset surplus in the plan explained in paragraph a).*

**21 Other liabilities and accrued expenses (continued)**

As per the actuarial calculation performed as of 31 December 2010 as detailed above, the asset surplus over the fair value of the plan assets to be used for the payment of the obligations also fully covered the benefits not transferable and still a surplus of TL 504,338 thousands remains. However, the Bank's management, acting prudently, did not consider the health premium surplus amounting to TL 266,382 thousands as stated above and resulted from the present value of medical benefits and health premiums transferable to SSF. However, despite this treatment there were no excess obligation that needed to be provided against as of 31 December 2010.

	<i>31 December</i>
	<u>2010</u>
Asset surplus over present value of defined benefit obligation	504,338
Net present value of medical benefits and health premiums transferable to SSF	<u>(266,382)</u>
Present value of asset surplus/(defined benefit obligation)	<u>237,956</u>

Expenses recognized in the statement of income regarding this benefit plan in the accompanying consolidated statements of comprehensive income for the six-month period ended 30 June 2011 and 2010 are as follows:

	<i>30 June</i>	<i>30 June</i>
	<u>2011</u>	<u>2010</u>
Total contribution payment	65,730	62,408
Provision for unfunded liability	<u>-</u>	<u>-</u>
	<u>65,730</u>	<u>62,408</u>

Principal actuarial assumptions used were as follows:

	<i>31 December</i>
	<u>2010</u>
	<u>%</u>
Discount rates	10.00
Inflation rates	5.10
Future real salary increase rates	1.5
Medical cost trend rates	24.70-2.80
Future pension increase rates	5.10

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at age 60 is 17 for males, and at age 58 for females is 23.

The sensitivity analysis of defined benefit obligation of excess liabilities were as follows:

	<b>% change in defined benefit obligation</b>		
	<i>Pension Benefits</i>	<i>Medical Benefits</i>	<i>Overall</i>
<u>Assumption change</u>	<u>%</u>	<u>%</u>	<u>%</u>
Discount rate +1%	(11.6)	(14.3)	(12.8)
Discount rate -1%	14.5	18.5	16.3
Medical inflation +10% of CPI		9.0	4.1
Medical inflation -10% of CPI		(7.8)	(3.6)

## 21 Other liabilities and accrued expenses (continued)

### *Short-term employee benefits*

Movement in the provision for short-term employee benefits are as follows:

	<i>30 June</i> <u>2011</u>	<i>31 December</i> <u>2010</u>
Balance, beginning of the period	190,508	125,691
Payments	(162,312)	(220,712)
Provision for the period	<u>115,049</u>	<u>285,529</u>
Balance, end of the period	<u>143,245</u>	<u>190,508</u>

### *Insurance business related provisions*

Insurance business related provisions are detailed in the table below:

	<i>30 June</i> <u>2011</u>	<i>31 December</i> <u>2010</u>
Reserve for unearned premiums, net	64,028	52,714
<i>Gross</i>	<i>115,321</i>	<i>98,737</i>
<i>Reinsurers' share</i>	<i>(51,293)</i>	<i>(46,023)</i>
Provision for claims, net	14,707	12,566
<i>Gross</i>	<i>23,143</i>	<i>21,538</i>
<i>Reinsurers' share</i>	<i>(8,436)</i>	<i>(8,972)</i>
Life mathematical reserves	<u>81,357</u>	<u>73,017</u>
	<u>160,092</u>	<u>138,297</u>

### *Reserve for employee severance indemnity*

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

	<i>30 June</i> <u>2011</u>	<i>31 December</i> <u>2010</u>
Balance, beginning of the period	105,425	76,003
Reversals and payments	(8,702)	(13,729)
Provision for the period	<u>19,253</u>	<u>43,151</u>
Balance, end of the period	<u>115,976</u>	<u>105,425</u>

The computation of the liabilities is based upon the retirement pay ceiling announced by the government. The ceiling amounts applicable for each year of employment are TL 2,623.23 and TL 2,365.16 as of 30 June 2011 and 31 December 2010, respectively.

The Bank reassessed the accounting treatment applied for the reserve for employee severance indemnity in 2011 and restated the prior years' consolidated financial statements (see Note 22 for details).

The principal actuarial assumptions are as follows:

	<i>30 June</i> <u>2011</u>	<i>31 December</i> <u>2010</u>
	<u>%</u>	<u>%</u>
Discount rate	4.66	4.66
Interest rate	10.00	10.00
Expected rate of salary	6.60	6.60
Inflation rate	5.10	5.10

## 21 Other liabilities and accrued expenses (continued)

### *Provision for non-cash loans*

Movement in the provision for non-cash loans are as follows:

	<i>30 June</i>	<i>31 December</i>
	<u>2011</u>	<u>2010</u>
Balance, beginning of the period	111,493	96,822
Provision for the period, net	<u>10,686</u>	<u>14,671</u>
Balance, end of the period	<u>122,179</u>	<u>111,493</u>

## 22 Equity

### *Share capital*

The authorized nominal share capital of the Bank amounted to TL 4,200,000 thousands as of 30 June 2011. However, the shares acquired by one of the Bank's consolidated affiliates with a total nominal value of TL 3,018 thousands in the current period, are deducted from the share capital in the accompanying consolidated statement of financial position for presentation purposes.

*Unrealised gains from changes in fair value of available-for-sale assets are detailed as follows:*

	<i>30 June</i>	<i>31 December</i>
	<u>2011</u>	<u>2010</u>
Balance at the beginning of the period	1,627,351	1,361,279
Net unrealised (losses)/gains from changes in fair value	(705,187)	573,498
Related deferred and current income taxes	128,118	(117,604)
Net gains transferred to the statement of comprehensive income on disposal	(273,965)	(238,206)
Related deferred and current income taxes	<u>55,132</u>	<u>48,384</u>
Balance at the end of the period	<u>831,449</u>	<u>1,627,351</u>

### *Hedging reserve*

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred (see Note 25.4 for the details).

### *Translation reserve*

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations into the functional currency of the Bank which is TL.

### *Legal reserves*

As per the decisions made at the annual general assemblies of the Bank and its affiliates, 5% of the prior year's net income is allocated to legal reserves. The reserves include legal reserves amounting to TL 763,947 thousands in total which are generated by annual appropriations amounting to 5% of the statutory income of the Bank and its affiliates until such reserves reach 20% of paid-in share capital (first legal reserves). Without limit, a further 10% of dividend distributions in excess of 5% of paid-in share capital appropriated to generate the legal reserves (second legal reserves). The legal reserves are restricted and are not available for distribution as dividends unless they exceed 50% of the share capital.

## 22 Equity (continued)

At the annual general assembly of the Bank held on 31 March 2011, it was decided to distribute a dividend of TL 570,000 thousands to shareholders and to allocate TL 157,262 thousands and TL 36,000 thousands to first and second legal reserves, respectively, from retained earnings.

### *Non-controlling interests*

As of 30 June 2011, net non-controlling interests amount to TL 105,256 thousands (31 December 2010: TL 97,461 thousands). Non-controlling interests are detailed as follows:

	<i>30 June</i>	<i>31 December</i>
	<u>2011</u>	<u>2010</u>
Capital	44,513	14,562
Retained earnings and other reserves	52,944	34,567
Non-controlling interests on a newly consolidated affiliate	-	27,457
Net income for the period	<u>7,799</u>	<u>20,875</u>
	<u>105,256</u>	<u>97,461</u>

### *Restatement of prior years' consolidated financial statements*

The Bank reassessed the accounting treatment applied for the reserve for employee severance indemnity in 2011 and restated the prior years' consolidated financial statements. The effects of such corrections made to the consolidated financial statements as of 31 December 2010 are as follows:

	<u>Total Assets</u>	<u>Total Equity</u>	<u>Net Income</u>	<u>Reserve for Employee Severance Indemnity</u>	<u>Deferred Tax Asset</u>
<i>As previously reported</i>	135,792,006	16,915,664	3,448,894	51,880	268,140
<i>Corrections</i>	<u>10,709</u>	<u>(42,836)</u>	<u>(17,269)</u>	<u>53,545</u>	<u>10,709</u>
<i>As restated</i>	<u>135,802,715</u>	<u>16,872,828</u>	<u>3,431,625</u>	<u>105,425</u>	<u>278,849</u>

## 23 Fair value information

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 best evidenced by a quoted market price.

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

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



## 23 Fair value information (continued)

Fair value of loans and advances to customers is TL 81,910,228 thousands (31 December 2010: TL 70,844,966 thousands), whereas the carrying amount is TL 82,418,661 thousands (31 December 2010: TL 71,092,418 thousands) in the accompanying consolidated statement of financial position as of 30 June 2011.

Fair value of investment securities is TL 36,447,728 thousands (31 December 2010: TL 40,901,829 thousands), whereas the carrying amount is TL 36,060,943 thousands (31 December 2010: TL 40,361,866 thousands) in the accompanying consolidated statement of financial position as of 30 June 2011.

The table below analyses financial instruments carried at fair value, by valuation method:

<u>30 June 2011</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at fair value through profit or loss	1,320,328	2,329	10,775	1,333,432
Accrued gains on derivatives	157	673,096	-	673,253
Debt and other instruments available-for-sale	29,383,892	15	2,143,409	31,527,316
Financial Assets at Fair Value	<u>30,704,377</u>	<u>675,440</u>	<u>2,154,184</u>	<u>33,534,001</u>
Accrued losses on derivatives	39	577,057	2,597	579,693
Financial Liabilities at Fair Value	<u>39</u>	<u>577,057</u>	<u>2,597</u>	<u>579,693</u>
<u>31 December 2010</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at fair value through profit or loss	761,260	11,844	1,739	774,843
Accrued gains on derivatives	1,491	472,164	-	473,655
Debt and other instruments available-for-sale	31,989,254	28,277	2,450,409	34,467,940
Financial Assets at Fair Value	<u>32,752,005</u>	<u>512,285</u>	<u>2,452,148</u>	<u>35,716,438</u>
Accrued losses on derivatives	23,040	514,028	1,027	538,095
Financial Liabilities at Fair Value	<u>23,040</u>	<u>514,028</u>	<u>1,027</u>	<u>538,095</u>

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

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

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

## 24 Commitments and contingencies

In the ordinary course of business, the Bank and its affiliates undertake various commitments and incur certain contingent liabilities that are not presented in the accompanying consolidated financial statements, including letters of guarantee, acceptance credits and letters of credit. Commitments and contingent liabilities comprise the following:

	<u>30 June</u> <u>2011</u>	<u>31 December</u> <u>2010</u>
Letters of guarantee	14,725,799	12,310,098
Letters of credit	4,804,239	3,934,455
Acceptance credits	213,955	164,105
Other guarantees and endorsements	60,379	56,746
	<u>19,804,372</u>	<u>16,465,404</u>

As of 30 June 2011, commitment for unpaid capital of affiliated companies amounts to TL 12,671 thousands (31 December 2010: TL 11,373 thousands).

## 24 Commitments and contingencies (continued)

As of 30 June 2011, commitments for unused credit limits for credit cards, overdrafts, cheques and loans to customers, and commitments for “credit linked notes” amount approximately to TL 25,561,802 thousands (31 December 2010: TL 23,496,957 thousands) in total.

As of 30 June 2011, commitments for the derivative transactions carried out on behalf of customers in the Turkish Derivatives Exchange amount to TL 439,883 thousands (31 December 2010: TL 508,005 thousands) in total.

As of 30 June 2011, commitment for purchase and sale of foreign currencies under spot, forwards, swaps, future rate agreements, options and forward agreements for gold trading amounts to TL 36,029,916 thousands (31 December 2010: TL 30,847,663 thousands), around 95% of which are due within a year.

The breakdown of outstanding commitments arising from derivatives is presented as follows:

	<u>30 June 2011</u>		<u>31 December 2010</u>	
	<u>Purchases</u>	<u>Sales</u>	<u>Purchases</u>	<u>Sales</u>
Forward agreements for customer dealing activities	2,848,313	1,430,619	890,209	965,465
Currency swap agreements for customer dealing activities	778,934	8,013	218,026	131,690
Options for customer dealing activities	2,449,761	3,633,591	2,242,725	410,591
Forward agreements for hedging purposes	530,680	653,513	923,070	152,921
Currency swap agreements for hedging purposes	6,693,136	8,775,742	5,582,038	8,491,964
Interest rate and credit default swap agreements	130,649	167,089	62,407	161,217
Interest rate, foreign currency and securities options	2,902,569	3,146,391	3,790,104	4,892,784
Forward rate agreements, foreign currency and interest rate futures	1,960	18,844	103,667	3,630
Forward agreements for gold trading	84,510	54,818	381,865	274,338
Spot foreign currency transactions	<u>1,069,023</u>	<u>651,761</u>	<u>564,441</u>	<u>604,511</u>
	<u>17,489,535</u>	<u>18,540,381</u>	<u>14,758,552</u>	<u>16,089,111</u>

The following tables summarize the contractual amounts of the forward, swap, futures and options contracts, with details of remaining periods to maturity. Foreign currency amounts are translated at rates ruling at the date of the statement of financial position. Monetary items denominated in foreign currencies are economically hedged using foreign currency derivative contracts. All gains and losses on foreign currency contracts are recognized in the statement of comprehensive income, except for contracts of cash flow hedges as stated above.

**24 Commitments and contingencies (continued)**

<u>30 June 2011</u>	<i>Notional amount with remaining life of</i>					<u>Total</u>
	<u>Up to 1 month</u>	<u>1 to 3 months</u>	<u>3 to 6 months</u>	<u>6 to 12 months</u>	<u>Over 1 year</u>	
<u>Interest Rate Derivatives</u>						
Interest rate options	-	-	-	-	114,250	114,250
<i>Purchases</i>	-	-	-	-	114,250	114,250
<i>Sales</i>	-	-	-	-	-	-
Interest rate swaps	27,233	101,789	128,902	25,286	14,528	297,738
<i>Purchases</i>	13,459	47,981	46,682	13,282	9,245	130,649
<i>Sales</i>	13,774	53,808	82,220	12,004	5,283	167,089
Interest rate futures	2,375	16,072	-	-	-	18,447
<i>Purchases</i>	-	-	-	-	-	-
<i>Sales</i>	2,375	16,072	-	-	-	18,447
<u>Other Derivatives</u>						
Securities, shares and index options	4,704	1,996	125,402	7,622	9,630	149,354
<i>Purchases</i>	2,352	1,996	122,211	4,412	4,815	135,786
<i>Sales</i>	2,352	-	3,191	3,210	4,815	13,568
Other forward contracts	104,391	34,937	-	-	-	139,328
<i>Purchases</i>	55,165	29,345	-	-	-	84,510
<i>Sales</i>	49,226	5,592	-	-	-	54,818
<u>Currency Derivatives</u>						
Spot exchange contracts	1,720,784	-	-	-	-	1,720,784
<i>Purchases</i>	1,069,023	-	-	-	-	1,069,023
<i>Sales</i>	651,761	-	-	-	-	651,761
Forward exchange contracts	2,288,839	1,508,700	973,475	385,653	306,458	5,463,125
<i>Purchases</i>	1,406,062	887,392	671,853	216,829	196,857	3,378,993
<i>Sales</i>	882,777	621,308	301,622	168,824	109,601	2,084,132
Currency/cross currency swaps	7,578,145	3,503,800	2,387,056	1,627,624	1,159,200	16,255,825
<i>Purchases</i>	3,162,330	1,579,705	1,014,467	1,395,568	320,000	7,472,070
<i>Sales</i>	4,415,815	1,924,095	1,372,589	232,056	839,200	8,783,755
Options	3,418,463	2,889,807	2,561,037	2,944,658	54,743	11,868,708
<i>Purchases</i>	1,640,352	1,480,299	924,368	1,038,776	18,499	5,102,294
<i>Sales</i>	1,778,111	1,409,508	1,636,669	1,905,882	36,244	6,766,414
Foreign currency futures	-	1,957	-	400	-	2,357
<i>Purchases</i>	-	1,560	-	400	-	1,960
<i>Sales</i>	-	397	-	-	-	397
Subtotal Purchases	7,348,743	4,028,278	2,779,581	2,669,267	663,666	17,489,535
Subtotal Sales	7,796,191	4,030,780	3,396,291	2,321,976	995,143	18,540,381
Total of Transactions	<u>15,144,934</u>	<u>8,059,058</u>	<u>6,175,872</u>	<u>4,991,243</u>	<u>1,658,809</u>	<u>36,029,916</u>

**24 Commitments and contingencies (continued)**

<u>31 December 2010</u>	<u>Notional amount with remaining life of</u>					<u>Total</u>
	<u>Up to 1 month</u>	<u>1 to 3 months</u>	<u>3 to 6 months</u>	<u>6 to 12 months</u>	<u>Over 1 year</u>	
<u>Interest Rate Derivatives</u>						
Interest rate options	-	- 3,260,000	-	-	-	3,260,000
<i>Purchases</i>	-	- 1,630,000	-	-	-	1,630,000
<i>Sales</i>	-	- 1,630,000	-	-	-	1,630,000
Interest rate swaps	27,097	130,423	32,343	21,678	12,083	223,624
<i>Purchases</i>	13,058	15,922	14,493	11,441	7,493	62,407
<i>Sales</i>	14,039	114,501	17,850	10,237	4,590	161,217
Interest rate futures	-	91,200	-	-	-	91,200
<i>Purchases</i>	-	91,200	-	-	-	91,200
<i>Sales</i>	-	-	-	-	-	-
<u>Other Derivatives</u>						
Securities, shares and index options	5,856	477,842	145,516	77,831	12,198	719,243
<i>Purchases</i>	3,309	276,755	72,758	37,590	6,099	396,511
<i>Sales</i>	2,547	201,087	72,758	40,241	6,099	322,732
Other forward contracts	306,915	205,054	144,234	-	-	656,203
<i>Purchases</i>	238,780	92,001	51,084	-	-	381,865
<i>Sales</i>	68,135	113,053	93,150	-	-	274,338
<u>Currency Derivatives</u>						
Spot exchange contracts	1,168,952	-	-	-	-	1,168,952
<i>Purchases</i>	564,441	-	-	-	-	564,441
<i>Sales</i>	604,511	-	-	-	-	604,511
Forward exchange contracts	1,430,113	421,493	486,435	366,339	227,285	2,931,665
<i>Purchases</i>	1,098,659	323,385	194,535	88,485	108,215	1,813,279
<i>Sales</i>	331,454	98,108	291,900	277,854	119,070	1,118,386
Currency/cross currency swaps	6,036,172	2,220,721	2,550,065	2,570,385	1,046,375	14,423,718
<i>Purchases</i>	2,264,356	415,042	1,112,647	1,704,019	304,000	5,800,064
<i>Sales</i>	3,771,816	1,805,679	1,437,418	866,366	742,375	8,623,654
Options	2,471,188	2,334,114	1,553,900	918,925	78,834	7,356,961
<i>Purchases</i>	1,430,708	1,243,605	795,038	464,232	72,735	4,006,318
<i>Sales</i>	1,040,480	1,090,509	758,862	454,693	6,099	3,350,643
Foreign currency futures	547	15,550	-	-	-	16,097
<i>Purchases</i>	547	11,920	-	-	-	12,467
<i>Sales</i>	-	3,630	-	-	-	3,630
Subtotal Purchases	5,613,858	2,469,830	3,870,555	2,305,767	498,542	14,758,552
Subtotal Sales	5,832,982	3,426,567	4,301,938	1,649,391	878,233	16,089,111
Total of Transactions	<u>11,446,840</u>	<u>5,896,397</u>	<u>8,172,493</u>	<u>3,955,158</u>	<u>1,376,775</u>	<u>30,847,663</u>

## **25 Financial risk management disclosures**

This section provides details of the Bank and its affiliates' exposure to risk and describes the methods used by management to control risk. The most important types of financial risk to which the Bank and its affiliates are exposed, are credit risk, liquidity risk, market risk and operational risk. Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) that affect the Bank's income or the value of its holdings of financial instruments.

The nature of the risks and the approach to managing risk differs fundamentally between the trading and non-trading portfolios; section 25.2 contains risk management information related to the trading portfolio and section 25.3 deals with the non-trading portfolio.

### ***Risk management framework***

Developing risk management policies and strategies, and controlling these functions are among the responsibilities of the board of directors. Consequently, the risk management department, which carries out the risk management activities and works independently from executive activities, report directly to the board of directors.

The board of directors monitors the effectiveness of the risk management system through the audit committee, other related committees and senior management.

The senior management is responsible for applying risk policies, principles and application procedures approved by the board of directors, ensuring timely and reliable reporting to the board of directors about the important risks identified, assessing internal control, internal audit and risk reports prepared for departments and either eliminating risks, deficiencies or defects identified in these departments or taking the necessary precautions to prevent those and participating in determination of risk limits.

The Bank's risk management policy is established on its maintainable long term, value adding growth strategy. This policy is measuring risks with the methods in compliance with its activities and international standards, and optimal allocation of economic capital to business lines considering the risk-return balance.

The risk management system consists of all the mechanisms related to establishment of standards, information flow, determination of the compliance with standards, decision making and applications processes; which were put into practice by the board of directors in order to monitor, control and change when deemed necessary the risk-return structure and the future cash flows of the Bank and the quality and the level of related activities.

The risks are measured with the internationally accepted methodologies in compliance with local and international regulations, the Bank's structure, policy and procedures. The risks are assessed in a continuously developing manner. The Bank, through its training and management standards and procedures, aims to manage those risks effectively. At the same time, studies for compliance with the international banking applications, such as Basel II, are carried out.

In order to ensure the compliance with the rules altered pursuant to the Articles 23, 29 and 31 of the Turkish Banking Law No. 5411 and the Articles 36 and 43 of Regulation on Internal Systems within the Banks, dated 1 November 2006, the Bank periodically reviews the current written policies and implementation procedures regarding management of each risk encountered in its activities.

The Bank has purchased an integrated software system to place better risk management and Basel II applications in order to support and improve risk management activities. The Bank aims to establish the Basel II applications in line with the BRSA's roadmap.

## **25 Financial risk management disclosures (continued)**

### *Audit Committee*

The audit committee consists of two members of the board of directors who do not have any executive functions. The audit committee, which was established to assist the board of directors in its auditing and supervising activities, is responsible for:

- Monitoring the effectiveness and adequacy of the Bank's internal control, risk management and internal audit systems, operation of these systems and accounting and reporting systems in accordance with applicable regulations and the integrity of resulting information;
- Performing the preliminary studies required for the election of independent audit firms and regularly monitoring their activities;
- Ensuring that the internal audit functions of consolidated organizations are performed in a consolidated and coordinated manner.

### *Other Committees*

Market, credit and operational sub-risk committees have been established in order to facilitate exchange of information and views with the relevant units of the Bank and to promote the use of risk management and internal audit systems within the Bank.

### **25.1 Derivative financial instruments**

The Bank and its affiliates enter into a variety of derivative financial instruments for hedging and risk management purposes. This note describes the derivatives used. Further details of the objectives and strategies in the use of derivatives are set out in the sections of this note on non-trading activities. Details of the nature and terms of derivative instruments outstanding at the dates of the statements of financial position are set out in Note 24. Derivative financial instruments used include swaps, futures, forwards, options and other similar types of contracts whose value changes in response to changes in interest rates, foreign exchange rates and gold prices. Derivatives are individually negotiated over-the-counter contracts. A description of the main types of derivative instruments used is set out below:

#### *Swaps*

Swaps are over-the-counter agreements to exchange future cash flows based upon agreed notional amounts. Most commonly used swaps are currency swaps. The Bank and its affiliates are subject to credit risk arising from the respective counterparties' failure to perform. Market risk arises from the possibility of unfavorable movements in market rates relative to the contractual rates of the contract.

#### *Futures and forwards*

Futures and forward contracts are commitments to either purchase or sell a designated financial instrument, currency, commodity or an index at a specified future date for a specified price and may be settled in cash or another financial asset. Futures are standardized exchange-traded contracts whereas forwards are individually traded over-the-counter contracts. Initial margin requirements for futures are met in cash or other instruments, and changes in the future contract values are settled daily. Therefore credit risk is limited to the net positive change in the market value for a single day. Futures contracts have little credit risk because the counterparties are clearing houses. Forward contracts result in credit exposure to the counterparty. Futures and forward contracts both result in exposure to market risk based on changes in market prices relative to contracted amounts.

## **25 Financial risk management disclosures (continued)**

### *Options*

Options are derivative financial instruments that give the buyer, in exchange for a premium payment, the right, but not the obligation, to either purchase from (call option) or sell (put option) to the writer a specified underlying at a specified price on or before a specified date. The Bank enters into foreign exchange, bond, equity index, interest rate options, not only vanilla options but also exotic options. Foreign currency options provide protection against rising or falling currency rates. The Bank as a buyer of over-the-counter options is subject to market risk and credit risk since the counterparty is obliged to make payments under the terms of the contract if the Bank exercises the option. As the writer of over-the-counter options, the Bank is subject to market risk only since it is obliged to make payments if the option is exercised.

### **25.2 Trading activities**

The Bank and its affiliates maintain active trading positions in non-derivative financial instruments. Most of the trading activities are customer driven. In anticipation of customer demand, an inventory of capital market instruments is carried and access to market liquidity is maintained by quoting bid and offer prices to and trading with other market makers. Positions are also taken in the interest rate, foreign exchange, debt and equity markets based on expectations of future market conditions. These activities constitute the proprietary trading business and enable the Bank and its affiliates to provide customers with capital market products at competitive prices. As trading strategies depend on both market-making and proprietary positions, given the relationships between instruments and markets, those are managed in concert to maximize net trading income. Trading activities are managed by type of risk involved and on the basis of the categories of trading instruments held.

#### *Counterparty credit risk*

The Bank and its affiliates' counterparty credit exposure at the date of the statement of financial position from financial instruments held or issued for trading purposes is represented by the fair value of instruments with a positive fair value at that date, as recorded on the statement of financial position. Notional amounts disclosed in the notes to the financial statements do not represent the amounts to be exchanged by the parties to derivatives and do not measure the exposure to credit or market risks. The amounts to be exchanged are based on the terms of the derivatives.

The risk that counterparties to trading instruments might default on their obligations is monitored on an ongoing basis. In monitoring credit risk exposure, consideration is given to trading instruments with a positive fair value and to the volatility of the fair value of trading instruments. To manage the level of credit risk, the Bank and its affiliates deal with counterparties of good credit standing, enter into master netting agreements whenever possible, and when appropriate, obtain collateral. Master netting agreements provide for the net settlement of contracts with the same counterparty in the event of default.

#### *Market risk*

All trading instruments are subject to market risk, the risk that future changes in market conditions may make an instrument less valuable or more onerous. The instruments are recognized at fair value, and all changes in market conditions directly affect net trading income.

The Bank and its affiliates manage its use of trading instruments in response to changing market conditions.

## **25 Financial risk management disclosures (continued)**

Market risks arising from trading transactions are measured by internal risk measurement model using value at risk (VaR) methodology. In the VaR calculations, trading and available-for-sale portfolios are taken into account. VaR is calculated by three different methods, namely historical simulation, Monte Carlo simulation and parametric method. The Bank takes the historical VaR results as the basis for the internal management of market risk and determination of limits. The calculations made according to other two methods are used for comparison and monitoring purposes. In the VaR calculation, one year historical market data set is used, and 99% confidence interval and one-day retention period are taken into account. In order to test the reliability of the VaR model, back tests are performed. Stress tests and scenario analysis are also applied in order to reflect the effects of prospective severe market fluctuations in the VaR calculations.

Internal limits are set as well as legal limits in order to restrict market risk; value at risk limits for trading portfolio, position limits set for trading desks, single transaction limits set for traders and stop-loss limits. Approval, update, monitoring, override and warning procedures of these limits are put into practice and changed with the approval of the board of directors.

The capital requirement for general market risk and specific risks is calculated using the standard method defined by the “Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks” as set out by the BRSA and reported monthly.

### **25.3 Non-trading activities**

Below is a discussion of the various risks the Bank and its affiliates are exposed to as a result of its non-trading activities and the approach taken to manage those risks.

#### *Liquidity risk*

Liquidity risk arises in the general funding of the Bank and its affiliates’ activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Bank’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking the Bank’s reputation. Funds are raised using a broad range of instruments including deposits, syndications, securitizations, bonds issuance, other funding sources and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. Liquidity risk is continuously assessed through identifying and monitoring changes in funding required for meeting business goals and targets set in terms of the overall strategy. In addition, a portfolio of liquid assets is held as a part of the Bank’s liquidity risk management strategy.



## 25 Financial risk management disclosures (continued)

### *Exposure to liquidity risk*

The calculation method used to measure the banks compliance with the liquidity limit is set by the BRSA. Currently, this calculation is performed on a bank only basis. In November 2006, the BRSA issued a new communiqué on the measurement of liquidity adequacy of banks. The legislation requires the banks to meet minimum 80% liquidity ratio of foreign currency assets/liabilities and minimum 100% liquidity ratio of total assets/liabilities on a weekly and monthly basis effective from 1 June 2007. The Bank's liquidity ratios for the first half of 2011 and the year 2010 are as follows:

	<i>30 June 2011</i>			
	<u><i>First Maturity Bracket (Weekly)</i></u>		<u><i>Second Maturity Bracket (Monthly)</i></u>	
	<u><i>FC</i></u>	<u><i>FC + TL</i></u>	<u><i>FC</i></u>	<u><i>FC + TL</i></u>
Average (%)	130.71	154.30	89.31	111.27

  

	<i>31 December 2010</i>			
	<u><i>First Maturity Bracket (Weekly)</i></u>		<u><i>Second Maturity Bracket (Monthly)</i></u>	
	<u><i>FC</i></u>	<u><i>FC + TL</i></u>	<u><i>FC</i></u>	<u><i>FC + TL</i></u>
Average (%)	123.99	203.09	89.16	129.40

The Bank's banking affiliate in the Netherlands is subject to a similar liquidity measurement, however the Dutch Central Bank does not impose limits, rather monitors the banks' overall liquidity position to ensure there is no significant deterioration in the liquidity of the banks.

The Bank's banking affiliate in Russia is subject to three levels of liquidity requirement; instant liquidity of minimum 15%, current liquidity of minimum 50% and long-term liquidity of maximum 120%.

The Bank's banking affiliate in Romania calculates the liquidity ratio as a ratio of total effective liquidity in local currency equivalent to total necessary liquidity in local currency equivalent which should be >1.

The following table provides an analysis of monetary assets and monetary liabilities of the consolidated entities into relevant maturity groupings based on the remaining periods to repayment:

	30 June 2011					Total
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 year	
<b>MONETARY ASSETS</b>						
<b>Turkish Lira</b>						
Cash and balances with central banks	8,994,714	-	-	-	-	8,994,714
Financial assets at fair value through profit or loss	59,476	25,982	74,560	126,166	16,301	302,485
Loans and advances to banks	442,595	523,978	62,978	1,810,387	-	2,839,938
Loans and advances to customers	11,890,592	4,791,463	5,024,750	16,775,535	4,522,227	42,725,330
Accrued gains on derivatives	146,520	90,155	202,303	38,969	32,583	510,530
Other assets	253,980	2,184,718	-	-	2,965	2,925,938
Investment securities	2,801,097	1,018,344	3,359,065	18,951,241	4,589,039	30,718,786
Deferred tax asset	-	-	-	-	-	224,404
Total Turkish Lira monetary assets	24,588,974	8,634,640	8,723,656	37,702,298	9,163,115	89,242,125
<b>Foreign Currency</b>						
Cash and balances with central banks	3,721,090	-	-	-	-	3,721,090
Financial assets at fair value through profit or loss	579,463	1	180,277	223,580	47,626	1,030,947
Loans and advances to banks	1,955,055	887,257	996,650	327,247	-	6,782,191
Loans and advances to customers	2,682,996	3,910,930	7,229,902	12,633,256	13,156,703	39,693,331
Accrued gains on derivatives	15,807	19,743	39,836	36,133	51,204	162,723
Other assets	4,755,623	165,318	3,018	1,722	3,000	4,957,846
Investment securities	225,308	31,502	198,373	1,748,181	3,138,793	5,342,157
Deferred tax asset	-	-	-	-	-	19,814
Total foreign currency monetary assets	13,935,342	5,014,751	8,648,056	14,970,119	19,013,308	61,710,099
Total Monetary Assets	38,524,316	13,649,391	17,371,712	52,672,417	28,176,423	150,952,224
<b>MONETARY LIABILITIES</b>						
<b>Turkish Lira</b>						
Deposits	35,978,837	7,349,608	559,033	6,052	-	43,893,530
Obligations under repurchase agreements	10,310,781	478,799	100,023	-	-	10,889,603
Loans and advances from banks	839,698	627,084	934,332	3,162,080	737,639	6,300,833
Bonds payable	-	-	2,085,707	-	-	2,085,707
Subordinated liabilities	-	-	-	-	-	-
Accrued losses on derivatives	102,196	52,583	115,667	68,838	70,609	409,893
Other liabilities and accrued expenses	3,606,270	2,630	2,398,429	113,948	7,255	7,151,157
Total Turkish Lira monetary liabilities	50,837,782	8,510,704	6,193,191	3,350,918	815,503	70,730,723
<b>Foreign Currency</b>						
Deposits	28,812,446	5,289,570	5,031,833	1,306,999	194,154	40,635,002
Obligations under repurchase agreements	793,256	663,604	837,330	1,024,672	-	3,318,862
Loans and advances from banks	1,087,314	997,107	6,738,861	6,066,563	2,313,593	17,203,438
Bonds payable	-	-	-	482,658	819,188	1,301,846
Subordinated liabilities	-	-	6,536	11,742	1,029,327	1,047,605
Accrued losses on derivatives	18,101	22,598	39,954	56,782	32,365	169,800
Other liabilities and accrued expenses	611,006	112,832	44,197	6,150	11,923	799,475
Total foreign currency monetary liabilities	31,322,123	7,085,711	12,698,711	8,955,566	4,400,550	64,476,028
Total Monetary Liabilities	82,159,905	15,596,415	18,891,902	12,306,484	5,216,053	135,206,751

31 December 2010

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 year	Undistributed	Total
<b>MONETARY ASSETS</b>							
<b>Turkish Lira</b>							
Cash and balances with central banks	3,163,504	-	-	-	-	-	3,163,504
Financial assets at fair value through profit or loss	180,849	52,344	94,771	216,680	133,417	-	678,061
Loans and advances to banks	915,778	72,841	513,671	1,799,823	-	-	3,302,113
Loans and advances to customers	9,734,797	4,971,829	3,600,414	14,049,669	4,155,482	(25,988)	36,486,203
Accrued gains on derivatives	89,348	45,184	134,098	51,841	20,710	-	341,181
Other assets	166,690	1,891,760	-	-	2,919	365,690	2,427,059
Investment securities	2,359,147	1,876,740	5,227,696	20,498,191	4,557,367	-	34,519,141
Deferred tax asset	-	-	-	-	-	262,866	262,866
Total Turkish Lira monetary assets	16,610,113	8,910,698	9,570,650	36,616,204	8,869,895	602,568	81,180,128
<b>Foreign Currency</b>							
Cash and balances with central banks	1,909,554	-	-	-	-	-	1,909,554
Financial assets at fair value through profit or loss	79,744	-	7,616	1,731	7,691	-	96,782
Loans and advances to banks	1,944,418	393,169	1,421,562	313,889	2,435,250	-	6,508,288
Loans and advances to customers	1,315,149	2,700,173	7,306,632	11,865,906	11,297,264	121,091	34,606,215
Accrued gains on derivatives	-	14,477	45,053	43,564	29,380	-	132,474
Other assets	3,757,659	3,844	105	4,301	2,606	41,428	3,809,943
Investment securities	71,158	13,683	827,024	1,747,471	3,183,389	-	5,842,725
Deferred tax asset	-	-	-	-	-	15,983	15,983
Total foreign currency monetary assets	9,077,682	3,125,346	9,607,992	13,976,862	16,955,580	178,502	52,921,964
Total Monetary Assets	25,687,795	12,036,044	19,178,642	50,593,066	25,825,475	781,070	134,102,092
<b>MONETARY LIABILITIES</b>							
<b>Turkish Lira</b>							
Deposits	39,174,678	4,335,544	572,414	6,258	-	-	44,088,894
Obligations under repurchase agreements	10,180,588	156,651	-	-	-	-	10,337,239
Loans and advances from banks	1,339,467	224,808	1,108,897	3,196,316	766,555	-	6,636,043
Bonds payable	-	-	-	-	-	-	-
Subordinated liabilities	-	-	-	-	-	-	-
Accrued losses on derivatives	56,651	36,013	131,209	31,158	107,150	-	362,181
Other liabilities and accrued expenses	3,046,256	2,467	2,201,873	172,156	6,585	858,580	6,287,918
Total Turkish Lira monetary liabilities	53,797,640	4,755,483	4,014,393	3,405,888	880,290	858,580	67,712,275
<b>Foreign Currency</b>							
Deposits	25,701,372	5,017,190	3,027,114	1,097,867	171,097	-	35,014,640
Obligations under repurchase agreements	465,358	672,318	260,427	-	-	-	1,398,103
Loans and advances from banks	654,783	409,072	5,311,117	4,143,687	2,809,702	-	13,328,361
Bonds payable	-	-	-	-	-	-	-
Subordinated liabilities	-	-	-	8,311	969,743	-	978,054
Accrued losses on derivatives	38,889	13,447	41,843	56,636	25,099	-	175,914
Other liabilities and accrued expenses	185,397	66,268	46,755	91	21,672	2,357	322,540
Total foreign currency monetary liabilities	27,045,799	6,178,295	8,687,256	5,306,592	3,997,313	2,357	51,217,612
Total Monetary Liabilities	80,843,439	10,933,778	12,701,649	8,712,480	4,877,603	860,937	118,929,887

## 25 Financial risk management disclosures (continued)

### *Contractual maturity analysis of liabilities according to remaining maturities*

The remaining maturities table of the contractual liabilities includes the undiscounted future cash outflows for the principal amounts of the Bank and its financial affiliates' financial liabilities as per their earliest likely contractual maturities.

30 June 2011

	<i>Carrying Value</i>	<i>Nominal Principal Outflows</i>	<i>Demand</i>	<i>Up to 1 Month</i>	<i>1 to 3 Months</i>	<i>3 to 12 Months</i>	<i>1 to 5 Years</i>	<i>Over 5 Years</i>
Deposits	84,528,532	84,152,559	16,788,427	47,795,269	12,549,169	5,535,181	1,290,613	193,900
Obligations under repurchase agreements	14,208,465	14,179,402	-	11,092,294	1,133,608	932,700	1,020,800	-
Loans and advances from banks	23,504,271	23,289,310	-	1,926,685	755,499	8,477,934	8,611,981	3,517,211
Bonds payable	3,387,553	3,358,539	-	-	-	2,085,707	480,000	792,832
Subordinated liabilities	1,047,605	1,022,712	-	-	-	6,451	11,538	1,004,723
Total Monetary Liabilities	<u>126,676,426</u>	<u>126,002,522</u>	<u>16,788,427</u>	<u>60,814,248</u>	<u>14,438,276</u>	<u>17,037,973</u>	<u>11,414,932</u>	<u>5,508,666</u>

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	<i>Carrying Value</i>	<i>Nominal Principal Outflows</i>	<i>Demand</i>	<i>Up to 1 Month</i>	<i>1 to 3 Months</i>	<i>3 to 12 Months</i>	<i>1 to 5 Years</i>	<i>Over 5 Years</i>
Deposits	79,103,534	78,780,771	15,240,399	49,413,615	9,309,706	3,555,753	1,090,569	170,729
Obligations under repurchase agreements	11,735,342	11,709,919	-	10,627,152	822,705	260,062	-	-
Loans and advances from banks	19,964,404	19,713,853	-	1,988,654	629,974	6,399,804	7,198,540	3,496,881
Subordinated liabilities	978,054	954,076	-	-	-	-	8,030	946,046
Total Monetary Liabilities	<u>111,781,334</u>	<u>111,158,619</u>	<u>15,240,399</u>	<u>62,029,421</u>	<u>10,762,385</u>	<u>10,215,619</u>	<u>8,297,139</u>	<u>4,613,656</u>

### *Market risk*

*Interest rate risk:* The Bank and its affiliates' operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities mature or reprice at different times or in differing amounts. In the case of floating rate assets and liabilities the Bank and its affiliates are also exposed to basis risk, which is the difference in repricing characteristics of the various floating rate indices, such as the deposit rate and libor and different types of interest. Treasury activities are aimed at optimizing net interest income, given market interest rate levels consistent with the Bank's business strategies.

Asset-liability risk management activities are conducted in the context of the Bank's sensitivity to interest rate changes. In general, as common in current economic environment, the consolidated financial statements are liability sensitive because its interest-earning assets have a longer duration and reprice slightly less frequently than interest-bearing liabilities. This means that in rising interest rate environments, margins earned will narrow as liabilities reprice. However, the actual effect will depend on a number of factors, including the extent to which repayments are made earlier or later than the contracted dates and variations in interest rate sensitivity within repricing periods and among currencies.

## **25 Financial risk management disclosures (continued)**

Interest rate derivatives are primarily used to bridge the mismatch in the repricing of assets and liabilities. This is done in accordance with the guidelines established by the Bank's asset-liability management committee.

Some assets have no defined maturities or interest rate sensitivities and are not readily matched with specific liabilities. Those assets are funded through liability pools based on the assets' estimated maturities and repricing characteristics.

Part of the Bank's return on financial instruments is obtained from controlled mismatching of the dates on which interest receivable on assets and interest payable on liabilities are next reset to market rates or, if earlier, the dates on which the instruments mature.

The following table provides an analysis of interest rate sensitivity of monetary assets and liabilities of the consolidated entities into relevant maturity groupings:

	30 June 2011						
	Up to	1 to 3	3 to 12	1 to 5	Over	Non-Interest	
	1 month	months	months	years	5 year	Bearing	
						Total	
<b>MONETARY ASSETS</b>							
Cash and balances with central banks	8,487,754	-	-	-	-	4,228,050	12,715,804
Financial assets at fair value through profit or loss	43,746	64,869	263,874	309,812	58,220	592,911	1,333,432
Loans and advances to banks	1,308,256	1,221,521	225,034	2,491,475	2,615,940	1,759,903	9,622,129
Loans and advances to customers	17,332,831	12,295,122	14,309,169	24,348,783	13,328,441	804,315	82,418,661
Other assets	498,902	162,386	1,721	-	5,965	7,888,063	8,557,037
Investment securities	15,201,196	3,789,981	6,556,689	4,636,903	2,882,538	2,993,636	36,060,943
Deferred tax asset	-	-	-	-	-	244,218	244,218
Total Monetary Assets	42,872,685	17,533,879	21,356,487	31,786,973	18,891,104	18,511,096	150,952,224
<b>MONETARY LIABILITIES</b>							
Deposits	49,278,358	12,830,262	6,266,825	903,894	162,277	15,086,916	84,528,532
Obligations under repurchase agreements	11,092,293	1,133,608	932,700	1,020,800	-	29,064	14,208,465
Loans and advances from banks	9,115,198	2,327,753	4,365,182	4,008,150	3,473,027	214,961	23,504,271
Bonds payable	480,000	-	2,085,707	-	792,832	29,014	3,387,553
Subordinated liabilities	3,176	81,741	930,789	5,691	1,315	24,893	1,047,605
Other liabilities and accrued expenses	-	-	-	-	-	8,530,325	8,530,325
Total Monetary Liabilities	69,969,025	16,373,364	14,581,203	5,938,535	4,429,451	23,915,173	135,206,751
	31 December 2010						
Up to	1 to 3	3 to 12	1 to 5	Over	Non-Interest	Total	
1 month	months	months	years	5 year	Bearing		
<b>MONETARY ASSETS</b>							
Cash and balances with central banks	2,658,719	-	-	-	-	2,414,339	5,073,058
Financial assets at fair value through profit or loss	270,704	143,616	89,544	118,824	17,430	134,725	774,843
Loans and advances to banks	3,124,531	2,923,334	1,417,483	948,417	-	1,396,636	9,810,401
Loans and advances to customers	16,531,187	10,222,350	13,101,355	20,093,501	10,179,444	964,581	71,092,418
Other assets	427,333	11	-	1,495	5,525	6,276,293	6,710,657
Investment securities	14,678,518	5,603,354	8,363,054	5,501,911	2,396,537	3,818,492	40,361,866
Deferred tax asset	-	-	-	-	-	278,849	278,849
Total Monetary Assets	37,690,992	18,892,665	22,971,436	26,664,148	12,598,936	15,283,915	134,102,092
<b>MONETARY LIABILITIES</b>							
Deposits	51,555,969	9,267,811	4,352,444	920,890	141,906	12,864,514	79,103,534
Obligations under repurchase agreements	10,616,385	833,473	260,062	-	-	25,422	11,735,342
Loans and advances from banks	9,043,050	1,024,890	2,530,438	3,922,573	3,192,903	250,550	19,964,404
Bonds payable	-	-	-	-	-	-	-
Subordinated liabilities	456	62,823	881,490	4,517	4,790	23,978	978,054
Other liabilities and accrued expenses	-	-	-	-	-	7,148,553	7,148,553
Total Monetary Liabilities	71,215,860	11,188,997	8,024,434	4,847,980	3,339,599	20,313,017	118,929,887

## 25 Financial risk management disclosures (continued)

The following table indicates the effective interest rates by major currencies for the major components of the consolidated statement of financial position for the first half of 2011 and the year 2010:

	<i>30 June 2011</i>			
	<i>US\$</i> <i>%</i>	<i>EUR</i> <i>%</i>	<i>TL</i> <i>%</i>	<i>Other</i> <i>Currencies</i> <i>%</i>
<i>Assets</i>				
Loans and advances to banks	1-5	1-6	7-12	1
Debt and other fixed or floating income instruments	6	4	12	7-11
Loans and advances to customers	1-11	1-14	8-27	1-53
<i>Liabilities</i>				
<i>Deposits:</i>				
- Foreign currency deposits	1-7	1-8	-	1-9
- Bank deposits	1-4	1-5	4-8	1-7
- Saving deposits	-	-	3-9	-
- Commercial deposits	-	-	6-14	-
- Public and other deposits	-	-	9	-
Obligations under repurchase agreements	1-2	1-3	5-7	4
Loans and advances from banks	2-3	1-4	9-16	-
	<i>31 December 2010</i>			
	<i>US\$</i> <i>%</i>	<i>EUR</i> <i>%</i>	<i>TL</i> <i>%</i>	<i>Other</i> <i>Currencies</i> <i>%</i>
<i>Assets</i>				
Loans and advances to banks	1-5	1-5	6-10	1-9
Debt and other fixed or floating income instruments	6	3	11	-
Loans and advances to customers	1-11	1-14	6-24	1-36
<i>Liabilities</i>				
<i>Deposits:</i>				
- Foreign currency deposits	1-7	1-8	-	1-12
- Bank deposits	1-5	1-5	4-7	1-7
- Saving deposits	-	-	5-9	-
- Commercial deposits	-	-	5-9	-
- Public and other deposits	-	-	9	-
Obligations under repurchase agreements	1-2	1	7	4
Loans and advances from banks	1-3	1-4	7-11	3-10

## 25 Financial risk management disclosures (continued)

The interest rate risk of the statement of financial position is monitored with static duration, gap and sensitivity analysis.

As a part of the duration-gap analysis, the bank-only sensitivity analysis for a +/-1 point change in the present values of interest sensitive balance sheet items excluding trading and available-for-sale portfolios and for a +/-5% point change in the foreign currency exchange rates used for foreign currency position and derivative transactions is provided in the table below:

	<u>30 June 2011</u>	<u>31 December 2010</u>
<b><i>Sensitivity analysis for TL interest rates:</i></b>		
<i>Stress applied</i>	<b><i>Change in portfolio value</i></b>	<b><i>Change in portfolio value</i></b>
(+) %1	(40,888)	(124,366)
(-) %1	40,876	127,735
<b><i>Sensitivity analysis for FC interest rates:</i></b>		
<i>Stress applied</i>	<b><i>Change in portfolio value</i></b>	<b><i>Change in portfolio value</i></b>
(+) %1	(293,096)	(230,871)
(-) %1	322,654	255,018
<b><i>Sensitivity analysis for FX rates:</i></b>		
<i>Stress applied</i>	<b><i>Change in foreign exchange result</i></b>	<b><i>Change in foreign exchange result</i></b>
(+) %5	19,489	(10,037)
(-) %5	6,338	31,013

There are internal limits set to manage interest rate risk for non-trading portfolios approved by the board of directors. The structural interest rate risk limit is calculated based on the present value change in interest rate sensitive assets and liabilities, except trading portfolio, resulting from stress test applied as predefined point increase for interest rates. The single transaction limits are defined for asset-liability management dealers.

The consolidated value at market risks as of 30 June 2011 and 31 December 2010 calculated as per the statutory consolidated financial statements prepared for the BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no.26333 dated 1 November 2006, are as follows:

	<u>30 June 2011</u>			<u>31 December 2010</u>		
	<u>Average</u>	<u>Highest</u>	<u>Lowest</u>	<u>Average</u>	<u>Highest</u>	<u>Lowest</u>
Interest rates risk	3,646,883	4,045,988	2,969,338	3,688,428	4,045,988	3,232,925
Common share risk	214,904	290,025	107,075	221,145	247,613	194,213
Currency risk	1,219,008	1,564,513	891,438	683,013	891,438	470,113
Option risk	582,140	734,624	420,334	382,304	494,375	227,063
Commodity risk	19,567	58,700	-	-	-	-
Total value at risk	<u>5,682,502</u>	<u>6,693,850</u>	<u>4,388,185</u>	<u>4,974,890</u>	<u>5,679,414</u>	<u>4,124,314</u>

### *Currency risk*

The Bank and its affiliates are exposed to currency risk through transactions in foreign currencies and through its investment in foreign operations.



## 25 Financial risk management disclosures (continued)

The Bank and its affiliates' main foreign operations are in the Netherlands and Russia. The measurement currencies of its operations are Euro and US Dollars. As the currency in which the Bank presents its consolidated financial statements is TL, the consolidated financial statements are affected by currency exchange rate fluctuations against TL.

The Bank finances a significant proportion of its net investment in foreign operations with borrowings in the same currencies as the relevant measurement currencies to mitigate its currency risk. Currency swaps are also used to match the currency of some of its other borrowings to the measurement currencies involved.

The Bank and its affiliates' transactional exposures give rise to foreign currency gains and losses that are recognized in the statement of comprehensive income. These exposures comprise the monetary assets and monetary liabilities that are not denominated in the measurement currency of the Bank involved. These exposures are as follows:

	<i>30 June 2011</i>			<i>Total</i>
	<i>US\$</i>	<i>EUR</i>	<i>Other Currencies</i>	
<i>Assets</i>				
Cash and balances with central banks	3,440,519	217,951	62,620	3,721,090
Financial assets at fair value				
through profit or loss	57,255	398,404	575,288	1,030,947
Loans and advances to banks	4,236,844	2,488,647	56,700	6,782,191
Loans and advances to customers	25,062,620	13,142,107	1,488,604	39,693,331
Other assets	3,943,695	1,099,332	77,542	5,120,569
Investment securities	3,357,947	1,801,341	182,869	5,342,157
Investments in equity participations	-	734	14	748
Tangible assets	100	52,400	109,552	162,052
Deferred tax asset	-	-	19,814	19,814
<i>Total Assets</i>	<u>40,098,980</u>	<u>19,200,916</u>	<u>2,573,003</u>	<u>61,872,899</u>
<i>Liabilities</i>				
Deposits	23,126,601	15,110,550	2,397,851	40,635,002
Obligations under repurchase agreements	2,487,221	677,763	153,878	3,318,862
Loans and advances from banks	9,906,060	7,297,374	4	17,203,438
Current and deferred tax liability	9,302	1,867	-	11,169
Bonds payable	1,301,846	-	-	1,301,846
Subordinated liabilities	821,866	225,739	-	1,047,605
Other liabilities and accrued expenses	275,955	620,983	61,168	958,106
<i>Total Liabilities</i>	<u>37,928,851</u>	<u>23,934,276</u>	<u>2,612,901</u>	<u>64,476,028</u>
<i>Net Statement of Financial Position</i>	<u>2,170,129</u>	<u>(4,733,360)</u>	<u>(39,898)</u>	<u>(2,603,129)</u>
<i>Net Off Balance Sheet Position</i>	<u>(1,649,140)</u>	<u>4,582,059</u>	<u>577,964</u>	<u>3,510,883</u>
<i>Net Long/(Short) Position</i>	<u>520,989</u>	<u>(151,301)</u>	<u>538,066</u>	<u>907,754</u>

## 25 Financial risk management disclosures (continued)

	<i>31 December 2010</i>			
	<u>US\$</u>	<u>EUR</u>	<u>Other Currencies</u>	<u>Total</u>
<i>Total Assets</i>	<u>33,247,482</u>	<u>17,957,407</u>	<u>1,851,029</u>	<u>53,055,918</u>
<i>Total Liabilities</i>	<u>29,209,033</u>	<u>20,186,799</u>	<u>1,821,780</u>	<u>51,217,612</u>
<i>Net Statement of Financial Position</i>	<u>4,038,449</u>	<u>(2,229,392)</u>	<u>29,249</u>	<u>1,838,306</u>
<i>Net Off Balance Sheet Position</i>	<u>(4,673,908)</u>	<u>1,808,142</u>	<u>373,701</u>	<u>(2,492,065)</u>
<i>Net Long/(Short) Position</i>	<u>(635,459)</u>	<u>(421,250)</u>	<u>402,950</u>	<u>(653,759)</u>

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

The short positions in the statement of financial position shown in the table above are hedged by currency swaps, forward contracts and other derivatives entered into to manage these currency exposures. In respect of monetary assets and liabilities in foreign currencies that are not economically hedged, the Bank and its affiliates ensure that their net exposures are kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

### *Credit risk*

The Bank and its affiliates are subject to credit risk through the trading, lending, hedging and investing activities and the guarantees issued for their customers as well as in cases where they act as intermediaries on behalf of customers or other third parties.

Credit risk associated with trading and investing activities is managed through the Bank's market risk management process.

The Bank and its affiliates' primary exposures to credit risk arise through its loans and advances. The amount of credit exposure in this regard is represented by the carrying amounts of these assets on the statement of financial position. The Bank developed a statistical-based internal risk rating model for its credit portfolio of corporate/commercial/medium-size companies. This internal risk rating model has been in use for customer credibility assessment since 2003 and is currently being reviewed and updated. Risk rating has become a requirement for loan applications, and ratings are used both to determine branch managers' credit authorization limits and in credit assessment process.

The concentration table of the cash and non-cash loans for the Bank according to the risk rating system for its customers defined as corporate, commercial and medium-size enterprises is presented below.

	<i>30 June</i>	<i>31 December</i>
	<i>2011</i>	<i>2010</i>
	<u>%</u>	<u>%</u>
Above Average	46	50
Average	48	44
Below Average	<u>6</u>	<u>6</u>
	100	100

Concentrations based on industries and groups are also monitored. Application scorecards are used during loan granting processes for retail and credit card portfolios. Behavioural scorecards have also been developed for these portfolios.

## 25 Financial risk management disclosures (continued)

The Bank and its affiliates are exposed to credit risk on various other financial assets, including derivative instruments used for hedging and debt investments. The current credit exposure in respect of these instruments is equal to the carrying amount of these assets in the statement of financial position. In addition, the Bank and its affiliates are exposed to off balance sheet credit risk through guarantees issued (Note 24).

The risk that counterparties to both derivative and other instruments might default on their obligations is monitored on an ongoing basis. To manage the level of credit risk, the Bank and its affiliates deal with counterparties of good credit standing, enter into master netting agreements whenever possible, and when appropriate, obtain collateral.

Concentrations of credit risk (whether on or off balance sheet) that arise from financial instruments exist for groups of counterparties when they have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

### *Exposure to credit risk*

	<i>Loans and advances to customers</i>	
	<u>30 June 2011</u>	<u>31 December 2010</u>
Individually impaired	2,095,525	2,553,057
Allowance for impairment	(1,946,404)	(2,174,492)
Carrying amount	<u>149,121</u>	<u>378,565</u>
Collectively impaired	-	-
Allowance for impairment	(348,814)	(283,461)
Carrying amount	(348,814)	(283,461)
Past due but not impaired	<u>1,096,446</u>	<u>1,219,358</u>
Carrying amount	<u>1,096,446</u>	<u>1,219,358</u>
Neither past due nor impaired	80,595,974	69,043,944
Loans with renegotiated terms	<u>925,934</u>	<u>734,012</u>
Carrying amount	<u>81,521,908</u>	<u>69,777,956</u>
Total carrying amount	<u>82,418,661</u>	<u>71,092,418</u>

### *Impaired loans*

Impaired loans are loans for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement due to lack of assets, high debtness ratio, insufficient working capital and/or equity of the customer.

### *Sectoral and geographical concentration of impaired loans*

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

## 25 Financial risk management disclosures (continued)

	<i>30 June</i>	<i>31 December</i>
	<u>2011</u>	<u>2010</u>
Consumer loans	1,056,202	1,271,408
Textile	179,150	197,457
Metal and metal products	103,079	109,894
Agriculture and stockbreeding	85,838	102,111
Construction	84,629	116,528
Food	75,774	81,781
Service sector	73,088	80,431
Chemistry and chemical products	57,827	63,181
Transportation and logistics	45,323	79,242
Energy	34,943	13,214
Durable consumption	31,206	28,637
Tourism	30,611	30,917
Paper and paper products	28,005	31,930
Transportation vehicles and sub-industries	26,212	158,250
Others	<u>183,638</u>	<u>188,076</u>
Total non-performing loans, factoring and lease receivables	<u>2,095,525</u>	<u>2,553,057</u>

	<i>30 June</i>	<i>31 December</i>
	<u>2011</u>	<u>2010</u>
Turkey	1,751,372	2,227,246
Romania	253,910	229,952
Ukraine	51,588	49,739
Switzerland	13,469	19,633
Russia	12,058	14,099
Brasil	7,653	8,089
Netherlands	2,470	2,552
Others	<u>3,005</u>	<u>1,747</u>
Total non-performing loans, factoring and lease receivables	<u>2,095,525</u>	<u>2,553,057</u>

### *Past due but not impaired loans*

These are loans where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of collateral available and the customer's current activities, assets and financial position.

### *Allowances for impairment*

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a portfolio-basis loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

### *Write-off policy*

The Bank writes off a receivable balance (and any related allowances for impairment losses) when it is determined that the receivable is uncollectible based on the evidence of insolvency issued by the Court. In cases where any possible collections are negligible comparing to the prospective expenses and costs, such receivables are written off by the decision of the board of directors.

## 25 Financial risk management disclosures (continued)

### *Collateral policy*

The Bank's policy is to require suitable collateral to be provided by certain customers prior to the disbursement of approved loans. The Bank and its affiliates currently hold collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets and guarantees. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 30 June 2011 and 31 December 2010.

Approximately 74% of the outstanding performing cash loans is collateralized. Guarantees and letters of credit are also subject to strict credit assessments before being provided. The agreements specify monetary limits to the Bank and its affiliates' obligations. The extent of collateral held for performing guarantees and letters of credit is approximately 86%. The breakdown of performing cash and non-cash loans and advances to customers by type of collateral is as follows:

	<i>30 June</i> <u>2011</u>	<i>31 December</i> <u>2010</u>
<i>Cash loans</i>		
Secured loans:	60,145,849	49,767,041
Secured by cash collateral	1,358,950	1,292,609
Secured by mortgages	18,514,251	17,500,571
Secured by government institutions or government securities	3,074,711	2,546,669
Guarantees issued by financial institutions	379,882	221,095
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	36,818,055	28,206,097
Unsecured loans	<u>21,514,785</u>	<u>20,411,382</u>
Total performing loans, financial lease receivables and factoring receivables	<u>81,660,634</u>	<u>70,178,423</u>
<i>Non-cash loans</i>		
Secured loans:	16,976,194	13,677,868
Secured by cash collateral	866,619	914,207
Secured by mortgages	1,499,751	1,764,647
Guarantees issued by financial institutions	45,892	33,942
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	14,563,932	10,965,072
Unsecured loans	<u>2,828,178</u>	<u>2,787,536</u>
Total non-cash loans	<u>19,804,372</u>	<u>16,465,404</u>

The fair value of collateral held against non-performing loans and receivables, is presented below, as per the collateral type, up to the outstanding total amount of exposures:

	<i>30 June</i> <u>2011</u>	<i>31 December</i> <u>2010</u>
Mortgages	471,995	582,745
Promissory notes and sureties	398,708	590,762
Pledge assets	202,347	343,787
Cash collateral	17,191	1,348
Unsecured	<u>1,005,284</u>	<u>1,034,415</u>
	<u>2,095,525</u>	<u>2,553,057</u>

## **25 Financial risk management disclosures (continued)**

The amounts reflected in the tables above represent the maximum accounting loss that would be recognized at the date of the statement of financial position if counterparties failed completely to perform as contracted and any collateral or security proved to be of no value. The amounts, therefore, greatly exceed expected losses, which are included in the allowance for uncollectibility.

### *Operational risks*

Operational risk expresses the probability of loss that may arise from the overlook of faults and inconsistency with the established rules due to the deficiencies in the Bank and its affiliates' internal controls, manner of the management and the personnel that are not in coherence with time and conditions, deficiencies in the bank management, faults and problems in information technology systems and disasters such as earthquake, fire, flood or terror attacks.

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

Currently, the value at operational risk is calculated according to the basic indicator approach as per the Article 14 of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" as pronounced by the BRSA.

The annual gross income is defined as net interest income plus net non-interest income reduced by realised gains/losses from the sale of securities available-for-sale and held-to-maturity, non-recurring gains and income derived from insurance claims. The result is added to risk weighted assets in the capital adequacy calculation.

### *Capital management – regulatory capital*

The BRSA sets and monitors capital requirements for the Bank as a whole. The parent company and individual banking operations are directly supervised by their local regulators. In implementing current capital requirements, the BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total value at credit, market and operational risks. The Bank and its affiliates' consolidated regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes paid-in capital, share premium, legal reserves, retained earnings, translation reserve and non-controlling interests after deductions for goodwill and certain cost items.
- Tier 2 capital, which includes qualifying subordinated liabilities, general impairment allowances and the element of the fair value reserve relating to unrealised gain/(loss) on assets classified as available-for-sale.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

## 25 Financial risk management disclosures (continued)

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. There have been no material changes in the Bank's management of capital during the period.

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

The Bank's and its affiliates' regulatory capital position on a consolidated basis as of 30 June 2011 and 31 December 2010 was as follows:

	<i>30 June</i> <u>2011</u>	<i>31 December</i> <u>2010</u>
Tier 1 capital	16,612,034	14,980,508
Tier 2 capital	2,296,385	2,354,165
Deductions from capital	<u>(70,122)</u>	<u>(106,274)</u>
Total regulatory capital	<u>18,838,297</u>	<u>17,228,399</u>
Value at credit, market and operational risks	<u>111,803,060</u>	<u>95,356,583</u>
<b>Capital ratios (%)</b>		
Total regulatory capital expressed as a percentage of total value at credit, market and operational risks	16.85	18.07
Total tier 1 capital expressed as a percentage of total value at credit, market and operational risks	14.86	15.71

### 25.4 Hedging

Due to the Bank and its affiliates' overall interest rate risk position and funding structure, its risk management policies require that it should minimize its exposure to changes in foreign currency rates and manage interest rate, credit risk and market price risk exposure within certain guidelines. Derivative financial instruments are used to manage the potential earnings impact of interest rate and foreign currency movements. Several types of derivative financial instrument are used for this purpose, including interest rate swaps and currency swaps, options, financial futures, forward contracts and other derivatives. The purpose of the hedging activities is to protect the Bank and its affiliates from the risk that the net cash inflows will be adversely affected by changes in interest or exchange rates, credit ratings or market prices. The Bank and its affiliates enter into transactions to ensure that it is economically hedged in accordance with risk management policies. In the accompanying consolidated financial statements, hedge accounting is applied for the cases where hedge accounting relationship is evidenced.

## 25 Financial risk management disclosures (continued)

The Bank entered into various interest rate swap transactions in order to hedge its certain cash flow and fair value exposures on floating/fixed rate assets and liabilities, through converting its floating/fixed rate income/payments into fixed/floating rate income/payments. The following table includes certain characteristics of the swap transactions outstanding as of 30 June 2011:

<i>Notional amount</i>	<i>Fixed payer rate (%)</i>	<i>Floating payer rate(%)</i>	<i>Fixed payment frequency</i>	<i>Maturity</i>
US\$ 41 millions	3.35	3 month Libor + 0.40	Quarterly	2012
US\$ 150 millions	6.25	6 month Libor + 2.61	Semi-annual	2021
US\$ 200 millions	6.25	6 month Libor + 2.61	Semi-annual	2021
US\$ 150 millions	6.25	6 month Libor + 2.61	Semi-annual	2021

## 26 Affiliates, associates and special purpose entities

The table below sets out the consolidated affiliates, associates and special purpose entities of the Bank and its shareholding interests in these entities:

<u><i>Consolidated entities</i></u>	<u><i>Shareholding Interest (%)</i></u>
Garanti Bank International NV	100.00
Garanti Holding BV (formerly, named D Netherlands Holding BV)	100.00
Garanti Bank Moscow	100.00
Garanti Portföy Yönetimi AŞ	100.00
Garanti Yatırım Menkul Kıymetler AŞ	100.00
Garanti Bilişim Teknolojisi ve Tic. AŞ	100.00
Garanti Filo Yönetimi Hizmetleri AŞ	100.00
Leasemart Holding BV	100.00
G Netherlands BV (formerly, named Doğuş GE BV)	100.00
Garanti Bank SA	100.00
Motoractive IFN SA	100.00
Ralfi IFN SA	100.00
Domenia Credit IFN SA	100.00
Garanti Finansal Kiralama AŞ	98.94
Garanti Emeklilik ve Hayat AŞ	84.91
Garanti Faktoring Hizmetleri AŞ	81.84
Garanti Yatırım Ortaklığı AŞ	0.21
Garanti Diversified Payment Rights Finance Company (a)	-
T2 Capital Finance Company (a)	-

(a) *Garanti Diversified Payment Rights Finance Company and T2 Capital Finance Company are the special purpose entities established for the Bank's securitization and subordinated debt transactions, respectively, that are explained in Note 17. The Bank or any of its affiliates does not have any shareholding interests in these companies.*



## 27 Net fee and commission income

	<i>Six-month period ended 30 June 2011</i>	<i>Three-month period ended 30 June 2011</i>	<i>Six-month period ended 30 June 2010</i>	<i>Three-month period ended 30 June 2010</i>
<i>Fee and commission income:</i>				
Credit cards fees	549,641	278,954	485,118	248,295
Retail banking	301,958	140,856	290,732	138,262
SME banking	170,401	82,041	151,089	71,895
Commercial banking	105,224	50,688	100,139	51,251
Corporate banking	20,227	6,694	20,831	7,466
Others	106,906	52,073	67,523	35,397
Total fee and commission income	<u>1,254,357</u>	<u>611,306</u>	<u>1,115,432</u>	<u>552,566</u>
<i>Fee and commission expense:</i>				
Credit cards fees	136,956	78,838	113,164	60,983
Retail banking	5,712	3,099	7,346	3,745
SME banking	762	412	3,521	1,846
Commercial banking	224	154	1,173	603
Corporate banking	118	95	105	58
Others	36,483	14,853	23,019	14,884
Total fee and commission expense	<u>180,255</u>	<u>97,451</u>	<u>148,328</u>	<u>82,119</u>
Net fee and commission income	<u>1,074,102</u>	<u>513,855</u>	<u>967,104</u>	<u>470,447</u>

## 28 Trading gains/(losses)

Gains and losses from derivative financial instruments and changes in fair value of other trading instruments are reflected in net trading gains/(losses) including the effective portion of fair value hedges, whereas, gains and losses arising from changes in the effective portion of the fair value of cash flow hedges are reflected as a separate component of equity. Net gains/(losses) from trading of financial assets is detailed in the table below:

	<i>Six-month period ended 30 June 2011</i>	<i>Three-month period ended 30 June 2011</i>	<i>Six-month period ended 30 June 2010</i>	<i>Three-month period ended 30 June 2010</i>
Fixed/floating securities	247,798	24,749	162,994	38,654
Derivative transactions	122,681	111,073	(39,679)	153,925
Trading gains, net	<u>370,479</u>	<u>135,822</u>	<u>123,315</u>	<u>192,579</u>

## 29 Other operating expenses

	<i>Six-month period ended 30 June 2011</i>	<i>Three-month period ended 30 June 2011</i>	<i>Six-month period ended 30 June 2010</i>	<i>Three-month period ended 30 June 2010</i>
Advertising expenses	36,788	17,441	60,675	29,411
Computer usage expenses	38,829	21,690	38,190	16,510
Utility expenses	37,891	19,553	34,766	18,055
Saving deposits insurance fund premiums	39,732	19,886	34,052	17,613
Claim losses from insurance business	9,877	871	16,737	8,227
Research and development expenses	10,320	6,908	14,522	8,093
Repair and maintenance expenses	14,722	8,660	13,590	8,299
Others	236,362	116,537	242,391	122,246
	<u>424,521</u>	<u>211,546</u>	<u>454,923</u>	<u>228,454</u>

### **30 Use of estimates and judgements**

Management discussed with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates. These disclosures supplement the commentary on financial risk management (see Note 25).

#### *Key sources of estimation uncertainty*

##### Allowances for credit losses

Assets accounted for at amortized cost are evaluated for impairment on a basis described in Note 7.

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

Portfolio-basis assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. A component of portfolio-basis assessed allowances relates to country risks. In assessing the need for collective loan loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the specific allowances depends on the estimated future cash flows for specific counterparties and the assumptions and inputs to the impairment used in determining collective allowances.

##### Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in significant accounting policies section and Note 23. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

#### *Critical accounting judgements in applying the Bank's accounting policies*

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

##### Financial asset and liability classification

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

- In classifying financial assets or liabilities as "trading", the Bank has determined that it meets the description of trading assets and liabilities set out in accounting policy (h) *Financial instruments*.

### 30 Use of estimates and judgements (continued)

- In designating financial assets or liabilities at fair value through profit or loss, the Bank has determined that it has met one of the criteria for this designation set out in accounting policy (h) *Financial instruments*.
- In classifying financial assets as held-to-maturity, the Bank has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy (h) *Financial instruments*.

#### Securitizedizations

In applying its policies on securitized financial assets, the Bank has considered both the degree of transfer of risks and rewards on assets transferred to another entity and the degree of control exercised by the Bank over the other entity:

- When the Bank, in substance, controls the entity to which financial assets have been transferred, the entity is included in these consolidated financial statements and the transferred assets are recognised in the Bank's consolidated statement of financial position.
- When the Bank has transferred financial assets to another entity, but has not transferred substantially all of the risk and rewards relating to the transferred assets, the assets are recognised in the Bank's consolidated statement of financial position.
- When the Bank transfers substantially all the risks and rewards relating to the transferred assets to an entity that it does not control, the assets have been derecognised from the Bank's consolidated statement of financial position.

Details of the Bank's securitization activities are given in Note 17.

### 31 Significant events

- At the Bank's annual general assembly dated 31 March 2011, it was decided to distribute the net income of the year 2010 as follows:

<b>2010 INCOME DISTRIBUTION TABLE</b>	
2010 Net income as per BRSA reporting	<b>3,145,233</b>
A – I. Legal reserve (Turkish Commercial Code 466/1) at 5%	(157,262)
Undistributable funds	(20,996)
B – First dividend at 5% of the paid-in capital	(210,000)
C – Extraordinary reserves at 5% after above deductions	(137,849)
D – Second dividend to the shareholders	(360,000)
E – Extraordinary reserves	(2,223,126)
F – II. Legal reserve (Turkish Commercial Code 466/2)	(36,000)

Dividend payments to the Bank's shareholders started on 11 April 2011.

- A part of the Bank's non-performing loan portfolio amounting to TL 483,876 thousands was sold to a local asset management company at a sale price of TL 53,925 thousands. The sale price is fully recognized as income under other operating income as such receivables were fully provided against in the accompanying consolidated financial statements before the sale.