



Yapı ve Kredi Bankası A.Ş.

a Turkish banking institution organised as a joint stock company

U.S.\$500,000,000 6.75% Notes due 2017

Issue Price: 98.96%

Yapı ve Kredi Bankası A.Ş., a Turkish banking institution organised as a joint stock company (the “**Bank**” or the “**Issuer**”), is issuing U.S.\$500,000,000 6.75% Notes due 2017 (the “**Notes**”). The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”), or the securities or “blue sky” laws of any state of the United States of America (“**United States**” or “**U.S.**”), the Republic of Turkey (“**Turkey**”), the United Kingdom or any other jurisdiction, and are being offered: (a) for sale (the “**U.S. Offering**”) in the United States to qualified institutional buyers (each a “**QIB**”) as defined in, and in reliance upon, Rule 144A (“**Rule 144A**”) under the Securities Act and (b) for sale (the “**International Offering**”) and, with the U.S. Offering, the “**Offering**”) outside the United States to persons other than U.S. persons in reliance upon Regulation S (“**Regulation S**”) under the Securities Act. For a description of certain restrictions on sale and transfer of the Notes, see “*Subscription and Sale*” and “*Transfer Restrictions*”.

INVESTING IN THE NOTES INVOLVES RISKS. PROSPECTIVE INVESTORS SHOULD CONSIDER THE FACTORS SET FORTH UNDER “RISK FACTORS” BEGINNING ON PAGE 9 OF THIS OFFERING MEMORANDUM.

As described further herein, the net proceeds of the Notes will be used by the Issuer for the Issuer’s general corporate purposes.

Interest on the Notes will be paid in arrear on 8 February and 8 August in each year, *provided that* if any such date is not a Business Day (as defined herein), then such payment will be made on the next Business Day. Principal of the Notes is scheduled to be paid on 8 February 2017, but may be paid earlier under certain circumstances as further described herein.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the “**UK Listing Authority**”) for the Notes to be admitted to listing on the official list of the UK Listing Authority (the “**Official List**”) and to the London Stock Exchange plc (the “**London Stock Exchange**”) for such Notes to be admitted to trading on the London Stock Exchange’s Regulated Market (the “**Market**”). References in this Offering Memorandum to the Notes being “**listed**” (and all related references) shall mean that the Notes have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

Application has been made to the Capital Markets Board of Turkey (the “**CMB**”) in its capacity as competent authority under Law No. 2499 of the Republic of Turkey relating to capital markets (the “**Capital Markets Law**”) for the registration of the Notes with the CMB and the issuance of the Notes by the Bank outside Turkey. The Notes cannot be sold outside Turkey before they are registered with the CMB. The issuance of the Notes was approved by the CMB on 15 August 2011 and the registration certificate relating to the Notes has been obtained from the CMB on 31 January 2012.

The Notes are expected on issue to be rated BBB- by Fitch Ratings Ltd. (“**Fitch**”) and Ba1 by Moody’s Investors Service Limited (“**Moody’s**”). The Issuer’s current long-term foreign currency rating is Ba3 (outlook positive) by Moody’s, BBB- (stable) by Fitch and BB (outlook positive) by Standard & Poor’s Credit Market Services France SAS (“**Standard & Poor’s**”), together with Fitch and Moody’s, the “**Rating Agencies**”). As of the date of this Offering Memorandum, Turkey was rated BB+ by Fitch, Ba2 by Moody’s and BB by Standard & Poor’s. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. As of the date of this Offering Memorandum, each of the Rating Agencies is established in the European Union (“**EU**”) and is registered under Regulation No 1060/2009 (as amended) (the “**CRA Regulation**”). In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused.

All payments in respect of the Notes by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future Taxes (as defined in Condition 9) imposed or levied by or on behalf of a Relevant Jurisdiction (as defined in Condition 9), unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders (as defined below) after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of such withholding or deduction. The withholding tax rate on interest payments in respect of bonds issued by Turkish entities outside of Turkey varies depending on the original maturity of such bonds as specified under decree numbered 2010/1182 dated 20 December 2010 (the “**Decree**”). Pursuant to the Decree, (i) with respect to bonds with a maturity of less than one year, the withholding tax rate on interest is 10%, (ii) with respect to bonds with a maturity at least of one and less than three years, the withholding tax rate on interest is 7%, (iii) with respect to bonds with a maturity at least of three and less than five years, the withholding tax rate on interest is 3%, and (iv) with respect to bonds with a maturity of five years and more, the withholding tax rate on interest is 0%.

The Notes are being offered under Rule 144A and under Regulation S by J.P. Morgan Securities Ltd., Standard Chartered Bank and UniCredit Bank AG (collectively, the “**Joint Lead Managers**”), subject to their acceptance and right to reject orders in whole or in part. The Notes will initially be represented by global certificates in registered form (the “**Global Certificates**”). The Notes offered and sold in the United States to QIBs in reliance on Rule 144A (the “**Rule 144A Notes**”) will be represented by beneficial interests in one or more permanent global certificates in fully registered form without interest coupons (the “**Restricted Global Certificate**”) and will be registered in the name of Cede & Co., as nominee for The Depository Trust Company (“**DTC**”) and will be deposited on or about the Closing Date (as defined below) with The Bank of New York Mellon, New York Branch in its capacity as custodian (the “**Custodian**”) for DTC. The Notes offered and sold outside the United States to persons other than U.S. persons in reliance on Regulation S (the “**Regulation S Notes**”) will be represented by beneficial interests in a single, permanent global certificate in fully registered form without interest coupons, the “**Unrestricted Global Certificate**”) and will be registered in the name of The Bank of New York Depository (Nominees) Limited as nominee, and will be deposited on or about the Closing Date with The Bank of New York Mellon, London Branch as common depository for, and in respect of interests held through, Euroclear Bank SA/NV (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream, Luxembourg**”). It is expected that the Global Certificates will be delivered against payment therefor in immediately available funds on 8 February 2012.

J.P. Morgan

Standard Chartered Bank

UniCredit Bank

The date of this Offering Memorandum is 6 February 2012

This offering memorandum (the “Offering Memorandum”) constitutes a prospectus for the purpose of Article 5 of Directive 2003/71/EC (the “Prospectus Directive”) and for the purpose of giving information with regard to the Issuer and the Notes which, according to the particular nature of the Issuer and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and of the rights attaching to the Notes.

The Issuer, having made all reasonable enquiries, confirms that this Offering Memorandum contains all information which is material in the context of the issuance and offering of the Notes, that the information contained in this Offering Memorandum is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed in this Offering Memorandum are honestly held and that there are no other facts the omission of which would make this Offering Memorandum or any of such information or the expression of any such opinions or intentions misleading in any material respect and all reasonable enquiries have been made by the Bank to ascertain such facts and to verify the accuracy of all such information and statements.

This Offering Memorandum does not constitute an offer of, or an invitation by or on behalf of the Issuer or the Joint Lead Managers to subscribe for or purchase, any Notes. The distribution of this Offering Memorandum and the offer or sale of the Notes in certain jurisdictions is restricted by law. Persons into whose possession this Offering Memorandum may come are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe any such restrictions.

No person has been authorised in connection with the offering of the Notes to give any information or make any representation regarding the Issuer, the Joint Lead Managers or the Notes other than as contained in this Offering Memorandum. Any such representation or information must not be relied upon as having been authorised by the Issuer or the Joint Lead Managers. The delivery of this Offering Memorandum at any time does not imply that there has been no change in the Issuer’s affairs or that the information contained in it is correct as at any time subsequent to its date. This Offering Memorandum may only be used for the purpose for which it has been published.

No representation or warranty, express or implied, is made by the Joint Lead Managers as to the accuracy or completeness of the information set forth in this document, and nothing contained in this document is, or shall be relied upon as, a promise or representation, whether as to the past or the future. None of the Joint Lead Managers assumes any responsibility for the accuracy or completeness of the information set forth in this document. Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Issuer and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors which may be relevant to it in connection with such investment.

None of the Issuer or the Joint Lead Managers or any of their respective representatives is making any representation to any offeree or purchaser of the Notes regarding the legality of any investment by such offeree or purchaser under appropriate legal investment or similar laws. Each investor should consult with his own advisers as to the legal, tax, business, financial and related aspects of a purchase of the Notes.

In this Offering Memorandum, the “Group” refers to the Bank and its consolidated subsidiaries, unless the context otherwise requires.

Unless otherwise indicated, “**Noteholder**” refers to the registered holder of any Note. “**Beneficial Owner**” refers to an owner of a beneficial interest in any Note.

Unless otherwise indicated, references to “**resident**” herein refer to tax residents of Turkey and references to “**non-resident**” herein refer to persons who are not tax residents of Turkey.

The Notes have not been and will not be registered under the Securities Act or under the securities or “blue sky” laws of any state of the United States or any other U.S. jurisdiction. Each investor, by purchasing a Note (or a beneficial interest therein), agrees that the Notes (or beneficial interests therein) may be reoffered, resold, pledged or otherwise transferred only upon registration under the Securities Act or pursuant to the exemptions therefrom described under “*Transfer Restrictions*”. Each investor also will be deemed to have made certain representations and agreements as described therein. Any resale or other transfer, or attempted resale or other attempted transfer, that is not made in accordance with the transfer restrictions may subject the transferor and transferee to certain liabilities under applicable securities laws.

Prospective investors must determine the suitability of investment in the Notes in the light of their own circumstances. In particular, prospective investors should:

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the Notes and the merits and risks of investing in the Notes;
- (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on the investor's overall investment portfolio;
- (c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the Investors Currency;
- (d) understand thoroughly the terms of the notes and be familiar with the behaviour of any relevant indices and financial markets; and
- (e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect the investor's investment and ability to bear the applicable risks.

The Offering of the Notes has been authorised by the CMB only for the purpose of sale of the Notes outside Turkey in accordance with Article 15(b) of Decree 32 on the Protection of the Value of the Turkish Currency, as amended ("**Decree 32**"), the Capital Markets Law No. 2499 ("**Capital Markets Law**") and Articles 6 and 25 of Communiqué Serial II, No: 22 on the Principles on the Registration and Sale of Debt Instruments ("**Communiqué**") and, accordingly, the Notes (or beneficial interests therein) will neither be offered or sold to Turkish residents as required by the Banking Regulation and Supervision Agency (the "**BRSA**")'s decision dated 6 May 2010 (No. 3665) (as notified by the BRSA in its letter to the Turkish Banking Association dated 10 May 2010 and numbered B.02.1.BDK.011.00.00.31.2.9392) nor will they be offered or sold within Turkey under current capital markets regulations. The decision of the BRSA only applies to the initial offer and sale of the Notes by the Bank at the time of their issue, and pursuant to Article 15(d)(ii) of Decree 32, Turkish residents are permitted to purchase or to sell the Notes in the secondary markets *provided that* they purchase or sell such Notes (or beneficial interests) in the financial markets outside of Turkey and such sale and purchase is made through banks and/or licensed brokerage institutions authorised pursuant to CMB regulations.

Except as described in this Offering Memorandum, beneficial interests in the Global Certificates will be represented through accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC, Euroclear and Clearstream, Luxembourg. Except as described in this Offering Memorandum, owners of beneficial interests in the Global Certificates will not be entitled to have the Notes registered in their names, will not receive or be entitled to receive physical delivery of the Notes in definitive form and will not be considered holders of the Notes under the Notes and the Agency Agreement.

An application has been made to admit the Notes to listing on the London Stock Exchange; however, no assurance can be given that such application will be accepted.

In connection with the issue of Notes to be underwritten by the Joint Lead Managers, J.P. Morgan Securities Ltd. (the "Stabilising Manager") (or persons acting on behalf of the Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake any stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant issue of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Issue Date and 60 days after the date of the allotment of the relevant Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules. Notwithstanding anything herein to the contrary, the Bank may not (whether through over-allotment or otherwise) issue more Notes than have been registered with the CMB.

Other than the registration with the CMB, the Notes have not been approved or disapproved by any state securities commission or any other U.S., Turkish, United Kingdom or other regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of this Offering or the accuracy or adequacy of this Offering Memorandum. Any representation to the contrary may be a criminal offence.

The distribution of this Offering Memorandum and the offering of the Notes (and beneficial interests therein) in certain jurisdictions may be restricted by law. Persons that come into possession of this Offering Memorandum are required by the Bank and the Joint Lead Managers to inform themselves about and to observe any such restrictions.

This Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy the Notes (or any beneficial interest therein) in any jurisdiction in which such offer or solicitation is unlawful. In particular, there are restrictions on the distribution of this Offering Memorandum and the offer and sale of the Notes (and beneficial interests therein) in the United States, Turkey, the United Kingdom and numerous other jurisdictions.

RESPONSIBILITY STATEMENT

The Issuer accepts responsibility for the information contained in this Offering Memorandum. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this Offering Memorandum is in accordance with the facts and contains no omission likely to affect the import of such information.

The Issuer has derived substantially all of the information contained in this Offering Memorandum concerning the Turkish market and its competitors, which may include estimates or approximations, from publicly available information, including press releases and filings made under various securities laws. Unless otherwise indicated, all data relating to the Turkish banking sector in this Offering Memorandum has been obtained from the BRSA's website at www.bddk.org.tr and the Banks' Association of Turkey's website at www.tbb.org and all data relating to the Turkish economy, including statistical data, has been obtained from Turkstat's website at www.turkstat.gov.tr, the Central Bank of Turkey ("**Central Bank**") website at www.tcmb.gov.tr and the Turkish Treasury's website at www.hazine.gov.tr. Data has been downloaded/observed on various days during the second half of 2011 and may be the result of calculations made by the Bank and therefore may not appear in the exact same form on such websites or elsewhere. Such websites do not form a part of, and are not incorporated into, this Offering Memorandum. Unless otherwise indicated, the sources for statements and data concerning the Bank and its business are based on best estimates and assumptions of the Bank's management. Management believes that these assumptions are reasonable and that its estimates have been prepared with due care. The data concerning the Bank included herein, whether based on external sources or based on the Bank's management internal research, constitute the best current estimates of the information described.

Where third party information has been used in this Offering Memorandum, the source of such information has been identified. In the case of the presented statistical information, similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source. Where information has been sourced from a third party, such publications generally state that the information they contain has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Such data, while believed to be reliable and accurately extracted by the Bank for the purposes of this Offering Memorandum, has not been independently verified by the Bank or any other party and you should not place undue reliance on such data included in this Offering Memorandum. As far as the Bank is aware and able to ascertain from the information published by such third party sources, this information has been accurately reproduced and no facts have been omitted which would render the reproduction of this information inaccurate or misleading.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED (THE "**RSA**") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION

MEANS THAT THE NEW HAMPSHIRE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

TURKISH TAX CONSIDERATIONS

All payments in respect of the Notes by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future Taxes imposed or levied by or on behalf of a Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of such withholding or deduction. The withholding tax rate on interest payments in respect of bonds issued by Turkish entities outside of Turkey varies depending on the original maturity of such bonds as specified under decree numbered 2010/1182 dated 20 December 2010 (the “**Decree**”). Pursuant to the Decree, (i) with respect to bonds with a maturity of less than 1 year, the withholding tax rate on interest is 10%, (ii) with respect to bonds with a maturity at least of 1 and less than 3 years, the withholding tax rate on interest is 7%, (iii) with respect to bonds with a maturity at least of 3 and less than 5 years, the withholding tax rate on interest is 3%, and (iv) with respect to bonds with a maturity of 5 years and more, the withholding tax rate on interest is 0%.

FORWARD-LOOKING STATEMENTS

This Offering Memorandum contains statements that may be considered to be “forward-looking statements” as that term is defined in the U.S. Private Securities Litigation Act of 1995. Forward-looking statements appear in a number of places throughout this Offering Memorandum, including, without limitation, under “*Risk Factors*”, “*Use of Proceeds*”, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*”, “*Business of the Bank*” and elsewhere in this Offering Memorandum, and include, but are not limited to, statements regarding:

- strategy and objectives;
- trends affecting the Bank’s results of operations and financial condition;
- asset portfolios;
- loan loss reserve;
- capital adequacy;
- legal proceedings; and
- the Bank’s potential exposure to market risk.

The forward-looking statements also may be identified by words such as “believes”, “expects”, “anticipates”, “projects”, “intends”, “should”, “seeks”, “estimates”, “probability”, “risk”, “target”, “goal”, “objective”, “future” or similar expressions or variations on such expressions.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements.

The Bank has identified some of the risks inherent in forward-looking statements under “*Risk Factors*” in this Offering Memorandum. Factors that could cause actual results to differ materially from those in forward-looking statements include, among others:

- changes in the Turkish economy;
- changes in the banking and financial markets in Turkey;
- changes in the Bank’s ownership by Turkish state-controlled entities or other changes in policy by such entities;
- changes in applicable laws and regulations, including taxes, or accounting standards or practices;

- the monetary, interest rate and other policies of central banks in Turkey, the European Union, the United States and elsewhere;
- changes or volatility in interest rates, foreign exchange rates, asset prices, equity markets, commodity prices, inflation or deflation;
- the effects of competition in the markets in which the Bank operates, which may be influenced by regulation or deregulation;
- changes in consumer spending, saving and borrowing habits in Turkey, including changes in government policies which may influence investment decisions;
- the Bank's ability to hedge certain risks economically;
- the Bank's ability to manage any mismatches between the Bank's interest earning assets and the Bank's interest bearing liabilities;
- the Bank's ability to manage operational risks and prevent security breaches;
- the Bank's ability to grow the Bank's loan portfolio at historical rates;
- the Bank's ability to compete in the Bank's business lines and increase or maintain market share;
- the Bank's ability to control expenses;
- the timely development and acceptance of new products and services and the perceived overall value of these products and services by the Bank's clients;
- the Bank's ability to carry out acquisitions, disposals and any other strategic transactions;
- the Bank's ability to manage liquidity risks and to access financial markets;
- the Bank's success in managing the risks involved in the foregoing, which depends, among other things, on the Bank's ability to anticipate events that cannot be captured by the statistical models the Bank uses; and
- *force majeure* and other events beyond the Bank's control.

There may be other risks, including some risks of which the Bank is unaware, that could adversely affect the Bank's results or the accuracy of forward-looking statements in this Offering Memorandum. Therefore, you should not consider the factors discussed here or under "*Risk Factors*" to be a complete set of all potential risks or uncertainties.

You should not place undue reliance on any forward-looking statements. The Bank does not have any intention or obligation to update forward-looking statements to reflect new information, future events or risks that may cause the forward-looking events the Bank discusses in this Offering Memorandum not to occur or to occur in a manner different from what the Bank expects.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Accounting Records

The Bank maintains its books of accounts in Turkish Lira (“TL”) in accordance with the Banking Act No. 5411 (“**Banking Act**”), which is effective from 1 November 2005, the Turkish Commercial Code (“**TCC**”) and Turkish tax legislation. The Bank’s consolidated financial statements are prepared in accordance with the “Regulation on the Principles and Procedures Regarding Banks’ Accounting Applications and Safeguarding of Documents” published in the Official Gazette No. 26333 dated 1 November 2006 by the BRSA which refers to “Turkish Accounting Standards” (“**TAS**”) and “Turkish Financial Reporting Standards” (“**TFRS**”) issued by the Turkish Accounting Standards Board (“**TASB**”) and other decrees, notes and explanations related to the accounting and financial reporting principles published by the BRSA (together “**Turkish Accounting Standards**” or “**TAS**”). The format and the details of the publicly announced consolidated financial statements and related disclosures to these statements are prepared in accordance with the “Communiqués Related to Publicly Announced Financial Statements of Banks and Explanations and Notes Related to these Financial Statements” published in the Official Gazette No. 26430 dated 10 February 2007.

The financial statements of subsidiaries operating abroad have been prepared in accordance with legislation and regulations of the country in which they are operating, however, in order to provide fair presentation according to TAS, necessary adjustments and reclassifications are reflected to those financial statements.

IFRS Financial Statements

The Bank prepares consolidated annual accounts in accordance with International Financial Reporting Standards (“**IFRS**”). The Bank also prepares unaudited half-yearly interim condensed consolidated accounts in accordance with International Financial Reporting Standard IAS 34 “Interim Financial Reporting” (“**IAS 34**”). These unaudited half-yearly interim condensed consolidated financial statements are intended to provide an update on the latest complete annual financial statements and do not include all the information and disclosures required in the annual financial statements. Therefore they do not represent a complete set of financial statements in accordance with IFRS and they should be read in conjunction with the most recent annual consolidated financial statements prepared in accordance with IFRS. The Bank’s audited consolidated annual financial statements as of and for the year ended 31 December 2010 including corresponding data as of and for the years ended 31 December 2009 and 2008 (the “**Annual IFRS Financial Statements**”) presented herein have been prepared in accordance with IFRS. The Bank’s unaudited half-yearly interim condensed consolidated financial statements as of and for the six month period ended 30 June 2011 (the “**Interim IFRS Financial Statements**”) presented herein have been prepared in accordance with IAS 34. The 2009 and 2008 Annual IFRS Financial Statements were audited by the Bank’s independent auditors at the time, Başaran Nas Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., a member of PricewaterhouseCoopers (“**PwC**”), and are included in this Offering Memorandum. In 2010, the Bank changed its auditors for both its BRSA financial statements and its IFRS financial statements to Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., a member firm of Ernst & Young Global Limited (“**EY**”). The 2010 Annual IFRS Financial Statements were audited and the Interim IFRS Financial Statements were reviewed by the Bank’s independent auditors, EY, and are included in this Offering Memorandum. Except as otherwise indicated, the financial information presented in this Offering Memorandum has been extracted or derived from the Bank’s Annual IFRS Financial Statements and Interim IFRS Financial Statements.

Both PwC and EY are members of the Union of Certified Public Accountants and Sworn-in Certified Public Accountants of Turkey.

BRSA Financial Statements

The Bank also prepares consolidated annual, unaudited half-yearly and unaudited quarterly interim accounts in accordance with BRSA Principles. The Bank’s unaudited consolidated quarterly interim financial statements as of and for the nine months ended 30 September 2011 and 2010 (the “**Interim BRSA Financial Statements**”) have been prepared in accordance with BRSA Principles. The Interim BRSA Financial Statements were reviewed by EY.

References to “BRSA financial data” in this Offering Memorandum are to financial data prepared in accordance with BRSA Principles. BRSA financial data is provided in this Offering Memorandum when similar information has not been prepared or may not be available in accordance with IFRS or

for the purpose of comparison with similar data made publicly available by the BRSA regarding the Bank's competitors. All financial information presented in this Offering Memorandum is presented in accordance with IFRS unless expressly stated to be presented in accordance with BRSA Principles.

BRSA Principles and IFRS

BRSA Principles differ from IFRS. As an example, the provisioning policy used in the preparation of the Bank's IFRS Financial Statements differs from that used under BRSA Principles. For example, under BRSA Principles, provisioning is based on the length of the period of default, whereas under IFRS, provisioning is based on an evaluation made by management. For a discussion of the differences between BRSA Principles and IFRS, see "*Annex A—Summary of Differences Between IFRS and BRSA Accounting Principles*".

Currency Presentation

In this Offering Memorandum, references to "**Turkish Lira**" and "**TL**" are to the currency of Turkey, references to "**U.S. dollars**" and "**U.S.\$**" are to United States dollars and references to "€", "**euro**" and "**EUR**" are to the currency of the participating members states of the Economic and Monetary Union of the European Union. Certain amounts which appear in this Offering Memorandum have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be the sum of the figures which precede them.

Unless otherwise indicated, all amounts in this Offering Memorandum are presented in Turkish Lira.

Exchange Rate Information

This Offering Memorandum presents translations of certain Turkish Lira amounts into U.S. dollars at the Bank's published exchange rates (within the official limits set by the Central Bank) on the dates indicated (the "**Bank's Published Exchange Rate**"). The Bank's Published Exchange Rates as of 30 June 2011, 31 December 2010, 30 June 2010, 31 December 2009 and 31 December 2008 were TL1.5894, TL1.5073, TL1.5353, TL1.4680 and TL1.4744 = U.S.\$1.00, respectively. The Bank's Published Exchange Rate as of 30 November 2011 was TL1.7978 = U.S.\$1.00. These translations are for convenience only and are not intended to comply with the Financial Accounting Standards Board's Statement of Financial Accounting Standard No. 52, Foreign Currency Translation, or IAS 21, The Effect of Changes in Foreign Exchange Rates. No representation is made that the Turkish Lira or U.S. dollar amounts in this Offering Memorandum have been, could have been or could be converted into dollars at any particular rate or at all. Prospective investors should read the section entitled "*Exchange Rates*" for historical information regarding the exchange rates between the Turkish Lira and the U.S. dollar. For a discussion of the effects of fluctuating exchange rates on the Bank, see "*Risk Factors—Risks Related to the Group's Business—The Group is exposed to foreign exchange and currency risks*".

ENFORCEMENT OF JUDGMENTS AND SERVICE OF PROCESS

The Bank is a public joint stock company organised under the laws of Turkey. Certain of the directors and officers of the Bank named herein reside inside Turkey and all or a significant portion of the assets of such persons may be, and substantially all of the assets of the Bank are, located in Turkey. As a result, it may not be possible for investors to effect service of process upon such persons or entities outside Turkey or to enforce against them in the courts of jurisdictions other than Turkey any judgments obtained in such courts that are predicated upon the laws of such other jurisdictions. In order to enforce such judgments in Turkey, investors should initiate enforcement lawsuits before the competent Turkish courts. In accordance with Articles 50-59 of Turkey's International Private and Procedure Law (Law No. 5718), the courts of Turkey will not enforce any judgment obtained in a court established in a country other than Turkey unless:

- (a) there is in effect a treaty between such country and Turkey providing for reciprocal enforcement of court judgments;
- (b) there is *de facto* enforcement in such country of judgments rendered by Turkish courts; or
- (c) there is a provision in the laws of such country that provides for the enforcement of judgments of Turkish courts.

There is no treaty between Turkey and the United States or Turkey and the United Kingdom providing for reciprocal enforcement of judgments. There is no *de facto* reciprocity between Turkey and the United States. Turkish courts have rendered at least one judgment in the past confirming *de facto* reciprocity between Turkey and the United Kingdom. However, since *de facto* reciprocity is decided by the relevant court on a case-by-case basis, there is uncertainty as to the enforceability of court judgments obtained in the United States or the United Kingdom by Turkish courts in the future. Moreover, there is uncertainty as to the ability of an investor to bring an original action in Turkey based on the U.S. Federal or any other non-Turkish securities laws.

In addition, the courts of Turkey will not enforce any judgment obtained in a court established in a country other than Turkey if:

- (a) the defendant was not duly summoned or represented or the defendant's fundamental procedural rights were not observed;
- (b) the judgment in question was rendered with respect to a matter within the exclusive jurisdiction of the courts of Turkey;
- (c) the judgment is incompatible with a judgment of a court in Turkey between the same parties and relating to the same issues or, as the case may be, with an earlier foreign judgment on the same issue and enforceable in Turkey;
- (d) the judgment is not of a civil nature;
- (e) the judgment is clearly against public policy rules of Turkey;
- (f) the judgment is not final and binding with no further recourse for appeal under the laws of the country where the judgment has been rendered; or
- (g) the judgment was rendered by a foreign court that has deemed itself competent even though it has no actual relationship with the parties or the subject matter at hand.

In connection with the issuance of Notes, the Bank will designate UniCredit Bank AG, London Branch as their agent upon whom process may be served in connection with any proceedings in England.

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with resales of the Notes, for as long as the Notes are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer is required to furnish, upon request of a holder of the Notes and a prospective purchaser designated by such holder, the information required to be delivered under Rule 144A(d)(4) if, at the time of such request, the Issuer is neither a reporting company under Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

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OVERVIEW OF THE BANK

The following overview should be read in conjunction with, and is qualified in its entirety by, the detailed information appearing elsewhere in this Offering Memorandum, including the Financial Statements. Prospective investors should see “Risk Factors” below for a discussion of certain factors that should be considered in connection with an investment in the Notes (or beneficial interests therein).

The Bank is a full service bank with its headquarters in Istanbul, Turkey. According to BRSA statistics, as of 30 June 2011 the Bank was the fourth largest private bank in Turkey by total assets and ranked fifth in total cash loans (loans other than letters of guarantee, letters of credit and acceptances) with a 10.5% market share, and sixth in total deposits with an 8.6% market share.

The Bank has the fifth largest branch network in Turkey with 887 branches located in more than 70 cities and serves approximately 6.1 million active customers in Turkey. It maintains significant positions in key segments and products supported by its strong franchise, large network and leading brand. The Bank provides financial products and services including credit cards, retail banking, private banking, SME banking and corporate and commercial banking through its network of branches throughout Turkey. In addition to its branch network, the Bank offers its products and services through advanced alternative distribution channels including telephone banking, internet banking and mobile banking as well as its 2,595 ATMs, which was the fifth largest ATM network in Turkey as of 30 June 2011, according to BRSA statistics. Internationally, the Group carries out business through subsidiaries in the Netherlands, Russia and Azerbaijan and a branch in Bahrain.

As of 30 June 2011, the Group had total assets of TL106,190,842 thousand (U.S.\$66,811,905 thousand) and total loans and advances to customers (net) of TL67,546,055 thousand (U.S.\$42,497,833 thousand). The Group’s return on average equity excluding minority interest was 26% for 2010, compared to 23% for 2009 and 27% for 2008. The Bank’s shares are listed on the Istanbul Stock Exchange and its global depositary receipts are listed on the London Stock Exchange.

Organisation

The Group is organised into three main segments (1) retail banking, which includes the Bank’s credit card, individual and SME business segments, (2) private banking and wealth management, and (3) corporate and commercial banking. The Bank’s service model is supported by its domestic and international subsidiaries.

Principal Shareholder

The Bank’s controlling shareholder is Koç Financial Services (“KFS”) with an 81.8% stake. The remaining 18.2% of the Bank’s shares are publicly traded and held by minority shareholders. KFS is jointly owned by Koç Holding, one of the largest conglomerate groups in Turkey, and UniCredit, an international financial services group engaged in a wide range of banking, financial and related activities in Europe. Koç Holding and UniCredit each own 50% of the shares of KFS.

Key Competitive Advantages

The Group’s management believes that it has a number of key competitive advantages that enable it to compete effectively in the Turkish banking sector, including:

- Strong retail focus with leading market positions in key segments and products;
- Robust and customer-oriented balance sheet;
- Large network and leading brand;
- Solid risk profile;
- Diversified, high quality revenue mix;
- Proven track record of cost control and efficiency improvements; and
- Strong and committed shareholders.

Strategy

As a fully integrated banking and financial services group, the Bank is working towards its goal of becoming the leader in the finance sector. The Bank's mission is to ensure long-term sustainable growth and value creation for all of its shareholders. The Bank's strategy is structured around three main principles:

- Healthy and consistent growth;
- High quality and long-term sustainable customer relationships; and
- Strong and sustainable profitability.

Key strategic objectives

The Bank aims to record an above sector performance through its strong focus on customer satisfaction. The Bank expects to continue its strong performance through the following key long-term strategic pillars:

- Growth and commercial effectiveness;
- Net interest margin management;
- Funding and liquidity;
- Cost and efficiency;
- Asset quality; and
- Sustainability.

Prospective investors should refer to “*Business of the Bank – Strategy*” for more detail on the key strategies outlined above.

Risk Factors

An investment in the Notes involves certain risks. Prior to making an investment decision, prospective purchasers of the Notes should carefully review “*Risk Factors*” below, which sets out certain risks relating to political, economic and legal circumstances, the Turkish banking industry, the business of the Group and the Notes themselves.

OVERVIEW OF THE CONDITIONS OF THE NOTES

The following is an overview of certain information relating to the offering of the Notes, including the principal provisions of the terms and conditions thereof. This overview is indicative only, does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Offering Memorandum. See, in particular, “Conditions of the Notes”.

Issue:	U.S.\$500,000,000 principal amount of 6.75% Notes due 2017.
Interest and Interest Payment Dates:	The Notes bear interest from and including 8 February 2012 (the “ Issue Date ”) at the rate of 6.75% per annum, payable semi-annually in arrear on 8 February and 8 August in each year (each an “ Interest Payment Date ”). The first payment (for the period from and including 8 February 2012 to but excluding 8 August 2012 and amounting to U.S.\$33.75 per U.S.\$1,000 principal amount of each Note) shall be made on 8 August 2012.
Maturity Date:	8 February 2017.
Use of Proceeds:	The net proceeds will be used by the Issuer for general corporate purposes. See “ <i>Use of Proceeds</i> ”.
Status:	The Notes are senior, direct, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and (subject as provided above) rank and will rank <i>pari passu</i> , without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors’ rights. The Notes are issued pursuant to the Turkish Commercial Code (Law No. 6762) (“ TCC ”), the Capital Markets Law (Law No. 2499) and Articles 6 and 25 of the Communiqué.
Negative Pledge:	See “ <i>Conditions of the Notes—Condition 4</i> ”.
Certain Covenants:	The Issuer will agree to certain covenants, including, without limitation, covenants limiting transactions with affiliates. See “ <i>Conditions of the Notes—Condition 5</i> ”.
Redemption for Taxation Reasons:	The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (subject to certain conditions), at their principal amount (together with interest accrued to the date fixed for redemption) if, as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 9), or any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after 8 February 2012, on the next Interest Payment Date the Issuer would be required to pay additional amounts as provided or referred to in Condition 9 and the Issuer would be required to make any withholding or deduction for, or on account of, any Taxes imposed or levied by or on behalf of the Relevant Jurisdiction, beyond the prevailing applicable rates on the Issue Date and the requirement cannot be avoided by the Issuer taking reasonable measures available to it.
Taxation; Payment of Additional Amounts:	All payments in respect of the Notes by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (“ Taxes ”) imposed or levied by or on behalf of a Relevant Jurisdiction (as defined in the Conditions of the Notes), unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal

	the respective amounts which would have been receivable in respect of the Notes in the absence of the withholding or deduction. See “<i>Conditions of the Notes—Condition 9</i>”.
Events of Default:	The Notes will be subject to certain Events of Default (as defined in Condition 11) including (among others) non-payment, breach of obligations, cross acceleration and certain bankruptcy and insolvency events. See “<i>Conditions of the Notes—Condition 11</i>”.
Form, Transfer and Denominations:	The Regulation S Notes will be represented by beneficial interests in the Unrestricted Global Certificate in registered form, without interest coupons attached, which will be delivered to a common depositary for, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg. The Rule 144A Notes will be represented by beneficial interests in the Restricted Global Certificate, in registered form, without interest coupons attached, which will be deposited with the Custodian, and registered in the name of Cede & Co., as nominee for, DTC. Except in limited circumstances, certificates for Notes will not be issued in exchange for beneficial interests in the Global Certificates. See “<i>Conditions of the Notes—Condition 2</i>”. Interests in the Rule 144A Notes will be subject to certain restrictions on transfer. See “<i>The Global Certificates</i>” and “<i>Transfer Restrictions</i>”. Interests in the Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg, in the case of the Regulation S Notes, and by DTC and its direct and indirect participants, in the case of Rule 144A Notes. Notes will be issued in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 thereafter. See “<i>Conditions of the Notes</i>”.
Governing Law:	The Notes and the Agency Agreement will be governed by, and construed in accordance with, English law.
Listing:	Application has been made to the UK Listing Authority for the Notes to be admitted to listing on the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange’s Regulated Market.
Selling Restrictions:	The Notes have not been nor will be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, any U.S. person (as defined in Regulation S under the Securities Act), except to qualified institutional buyers in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A or otherwise pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The offer and sale of Notes is also subject to restrictions in Turkey and the United Kingdom. See “<i>Subscription and Sale—Selling Restrictions</i>”.
Risk Factors:	For a discussion of certain risk factors relating to Turkey, the Issuer and the Notes that prospective investors should carefully consider prior to making an investment in the Notes, see “<i>Risk Factors</i>”.

Regulation S Security Codes:

ISIN: XS0615235701

Common Code: 061523570

Rule 144A Security Codes:

ISIN: US984848AA90

CUSIP: 984848AA9

Common Code: 061917381

Representation of Noteholders:

There will be no trustee.

SELECTED FINANCIAL INFORMATION

The following tables set forth, for the periods indicated, selected consolidated financial information of the Bank and its subsidiaries derived from the Annual Financial Statements and Interim Financial Statements included elsewhere in this Offering Memorandum.

Prospective investors should read the following information in conjunction with “*Presentation of Financial and other Information*”, “*Recent Developments*”, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*”, the Annual Financial Statements and the Interim Financial Statements.

Balance Sheet Data

	As of 30 June		As of 31 December			
	2011	2011	2010	2010	2009	2008
	(U.S.\$ thousands) ⁽¹⁾	(TL thousands)	(U.S.\$ thousands) ⁽²⁾		(TL thousands)	
ASSETS						
Cash and assets balances with central banks.....	6,238,672	9,915,744	4,003,467	6,034,426	4,229,335	4,717,016
Loans and advances to banks	1,822,289	2,896,346	2,237,184	3,372,107	3,796,084	3,310,548
Financial assets held for trading						
– Trading securities.....	349,919	556,161	249,845	376,591	365,923	396,464
– Derivative financial instruments.....	237,038	376,749	460,110	693,524	617,704	433,651
Loans and advances to customers.....	42,497,832	67,546,055	38,349,469	57,804,154	42,137,597	42,469,983
Hedging derivatives	53,184	84,531	25,344	38,201	128,631	—
Investment securities						
– Available for sale.....	4,880,518	7,757,096	3,902,180	5,881,756	2,029,573	1,854,737
– Held to maturity.....	7,708,112	12,251,274	8,608,070	12,974,944	13,318,719	12,705,781
Investment in associates and joint ventures accounted for using the equity method	70,026	111,300	62,477	94,171	83,622	86,947
Goodwill	643,971	1,023,528	679,047	1,023,528	1,023,528	1,023,528
Other intangible assets.....	169,481	269,374	174,927	263,667	216,441	179,697
Property and equipment	707,892	1,125,124	771,631	1,163,080	1,156,183	1,215,588
Deferred income tax assets.....	320,238	508,987	315,922	476,189	482,803	308,958
Other assets.....	1,112,730	1,768,573	1,070,719	1,613,895	1,149,887	989,504
Total assets	66,811,905	106,190,842	60,910,391	91,810,233	70,736,030	69,692,402
LIABILITIES						
Deposits from banks.....	6,536,848	10,389,667	3,274,378	4,935,470	2,432,179	1,082,841
Customer deposits.....	36,274,107	57,654,065	35,487,925	53,490,950	42,181,386	43,725,847
Funds borrowed.....	9,297,280	14,777,097	8,369,231	12,614,942	8,631,136	9,652,438
Debt securities in issue	1,413,788	2,247,074	925,432	1,394,904	1,744,478	1,966,298
Derivative financial instruments	227,001	360,795	238,286	359,168	268,515	220,782
Financial liabilities designated at fair value	—	—	—	—	—	66,434
Current income taxes payable	81,945	130,243	81,288	122,526	69,036	8,339
Deferred income tax liabilities.....	1,072	1,704	1,414	2,132	13	1,030
Hedging derivatives	181,860	289,049	300,977	453,663	357,613	—
Other provisions	271,758	431,932	303,314	457,185	397,871	377,235
Retirement benefit obligations.....	593,080	942,642	623,457	939,736	964,541	869,255
Insurance technical reserves.....	637,085	1,012,583	617,466	930,707	866,804	835,200
Other liabilities	3,695,644	5,873,856	3,426,714	5,165,086	4,116,055	3,847,688
Total liabilities	59,211,468	94,110,707	53,649,883	80,866,469	62,029,627	62,653,387
EQUITY						
Share capital and share premium	3,034,012	4,822,259	3,199,270	4,822,259	4,822,259	4,822,259
Other reserves	218,981	348,049	203,139	306,192	235,993	107,598
Retained earnings	4,310,210	6,850,648	3,818,927	5,756,268	3,594,934	2,065,235
Equity attributable to equity holders of the Parent.....	7,563,204	12,020,956	7,221,335	10,884,719	8,653,186	6,995,092
Equity attributable to non-controlling interest.....	37,233	59,179	39,173	59,045	53,217	43,923
Total equity	7,600,437	12,080,135	7,260,508	10,943,764	8,706,403	7,039,015
Total liabilities and equity	66,811,905	106,190,842	60,910,391	91,810,233	70,736,030	69,892,402

Note:

- (1) For the convenience of the reader, these figures have been translated into U.S. dollars at the rate of TL 1.5894=U.S.\$1.00, which corresponds with the Bank's Published Exchange Rate on 30 June 2011. Such translation should not be construed as a representation that the TL amounts have been converted into U.S. dollars pursuant to IFRS. The high, low, average and period end exchange rates for the year ended 31 December 2010 and the six month period ended 30 June 2011, based on the Bank's Published Exchange Rates and the rates published by the Central Bank are set out in "Exchange Rates".
- (2) For the convenience of the reader, these figures have been translated into U.S. dollars at the rate of TL 1.5073=U.S.\$1.00, which corresponds with the Bank's Published Exchange Rate on 31 December 2010. Such translation should not be construed as a representation that the TL amounts have been converted into U.S. dollars pursuant to IFRS. The high, low, average and period end exchange rates for the year ended 31 December 2010 and the six month period ended 30 June 2010, based on the Bank's Published Exchange Rates and the rates published by the Central Bank are set out in "Exchange Rates".

Income Statement Data

	For the six months ended 30 June			For the year ended 31 December			
	2011	2011	2010	2010	2010	2009	2008
	(U.S.\$ thousands) ⁽¹⁾	(TL thousands)		(U.S.\$ thousands) ⁽²⁾		(TL thousands)	
Income Statement Data:							
Interest income	2,379,788	3,629,177	3,226,469	4,526,948	6,616,135	7,635,542	7,736,732
Interest expense.....	(1,392,669)	(2,123,820)	(1,548,465)	(2,281,011)	(3,333,697)	(3,801,028)	(5,067,988)
Net interest income.....	987,119	1,505,357	1,678,004	2,245,938	3,282,438	3,834,514	2,668,744
Net fee and commission income.....	631,874	963,608	896,537	1,279,475	1,869,953	1,724,696	1,505,260
Foreign exchange gains, net	49,247	75,102	38,509	62,519	91,372	130,623	106,278
Net trading, hedging and fair value income/(loss)	50,409	76,874	(43,874)	(17,419)	(25,458)	118,678	38,198
Gains/losses from investment securities, net	6,143	9,368	39,822	66,475	97,153	33,225	(35,574)
Insurance technical income, net.....	41,100	62,677	43,791	79,483	116,165	22,532	80,225
Other operating income	35,844	54,662	116,745	178,701	261,172	136,351	194,383
Operating income.....	1,801,736	2,747,648	2,769,534	3,895,173	5,692,795	6,000,619	4,557,514
Impairment (losses)/reversal on loans, investment securities and credit related commitments, net.....	1,442	2,199	(39,576)	(268,991)	(393,131)	(1,616,526)	(423,218)
Provision for retirement benefit obligations	(10,755)	(16,401)	(12,745)	4,323	6,318	(110,302)	(83,674)
Other provisions	(34,827)	(53,112)	(69,411)	(129,307)	(188,982)	(185,462)	(253,158)
Other operating expenses.....	(802,617)	(1,223,991)	(1,175,727)	(1,590,449)	(2,324,441)	(2,189,061)	(2,112,246)
Operating profit	954,979	1,456,343	1,472,075	1,910,749	2,792,559	1,899,268	1,685,218
Share of profit of associates and joint ventures accounted for using the equity method	5,183	7,904	2,593	4,328	6,326	(1,254)	1,166
Profit before income tax	960,162	1,464,247	1,474,668	1,915,077	2,798,885	1,898,014	1,686,384
Income tax expense.....	(173,505)	(264,595)	(295,610)	(385,324)	(563,151)	(305,946)	(316,416)
Profit for the year	786,657	1,199,652	1,179,058	1,529,753	2,235,734	1,592,068	1,369,968

(1) For the convenience of the reader, these figures have been translated into U.S. dollars at the rate of TL1.5250=U.S.\$1.00, which corresponds with average of the Bank's Published Exchange Rate for the six month period ended 30 June 2011. Such translation should not be construed as a representation that the TL amounts have been converted into U.S. dollars pursuant to the requirements of IFRS.

(2) For the convenience of the reader, these figures have been translated into U.S. dollars at the rate of TL1.4615=U.S.\$1.00, which corresponds with average of the Bank's Published Exchange Rate for the year ended 31 December 2010. Such translation should not be construed as a representation that the TL amounts have been converted into U.S. dollars pursuant to the requirements of IFRS.

Key Ratios

	As of and for the year ended 31 December		
	2010	2009	2008
	(%)		
Return on average shareholders' equity excluding minority interest	25.9	22.6	27.2
Net interest margin ⁽¹⁾	4.3	5.8	4.5
Capital adequacy ratio ⁽²⁾	15.4	16.5	14.2
Cost to income ⁽³⁾	40.8	36.5	46.3
Free capital ratio ⁽⁴⁾	8.6	8.1	6.1
Non-performing loans to total cash loans	3.6	6.3	4.1
Cost to average total assets.....	2.9	3.1	3.3

(1) Net interest income divided by average interest earning assets.

(2) Calculated in accordance with BRSA regulations.

(3) Represents non-interest expenses divided by total operating income before provisions and non-interest expense.

(4) Total shareholders' equity excluding investment in associates, goodwill, other intangible assets, property and equipment and deferred income tax assets divided by total assets.

RISK FACTORS

An investment in the Notes involves certain risks. Prior to making an investment decision, prospective purchasers of the Notes should carefully read the entire Offering Memorandum. In addition to the other information in this Offering Memorandum, prospective investors should carefully consider, in light of their own financial circumstances and investment objectives, the following risks before making an investment in the Notes. If any of the following risks actually occurs, the market value of the Notes may be adversely affected. In addition, factors that are material for the purpose of assessing the market risks associated with the Notes are also described below. The Bank believes that the factors described below represent the principal risks inherent in investing in the Notes, but the Bank does not represent that the statements below regarding the risks of holding any Notes are exhaustive.

Risks Related to Turkey

Turkey is subject to political risk

Turkey has been a parliamentary democracy since 1923. Unstable coalition governments have been common, and in the 87 years since its formation Turkey has had 61 mostly short lived governments. Also the military has played a significant role in politics and the government, intervening in the political process through coups in 1960, 1971 and 1980. *Adalet ve Kalkınma Partisi* (Justice and Development Party) (the “**AKP**”) has been in power since 2002 and is the first party since 1987 to have a parliamentary majority and thus be able to govern without reliance upon a coalition partner. The AKP was able to maintain its position in the most recent legislative elections held on 12 June 2011 and has established a new single party government. The new government’s agenda includes controversial reforms, such as the drafting of a new constitution.

Turkey has, both historically and recently, experienced controversies between the government and the military. In 2007, the Turkish government commenced an investigation including military officers, scholars, journalists and others based upon allegations of a planned coup. The Turkish government has also proposed changes to the Constitution affecting the judicial system in Turkey. On 7 July 2010, the Constitutional Court of Turkey passed the majority of the amendments but cancelled several amended provisions when it published its decision in the Official Gazette on 1 August 2010. The remaining sections of the constitutional amendments were subject to a public referendum that was held on 12 September 2010. Pursuant to the final decision of the High Commission on Elections (*Yüksek Seçim Kurulu*) published on 14 September 2010, 57.88% of the votes cast were in favour of the amendments, resulting in their approval by the public.

In September 2009, the Government announced an initiative to ease tensions with the Kurdish community by introducing a series of political reforms and engaging in dialogue. On 11 December 2009, the Constitutional Court of Turkey voted to dissolve the pro-Kurdish Democratic Society Party (“**DTP**”), ruling that the party had become the focal point for activities against the indivisible unity of the state, the country and the nation. The basis for the ruling was that the party had a connection to the Kurdistan Workers’ Party (the “**PKK**”). On 23 December 2009, a number of mayors and former members of the DTP formally joined the Peace and Democracy Party (“**BDP**”), which they had established prior to the dissolution of the DTP. The decision of the High Commission on Elections (*Yüksek Seçim Kurulu*) in June 2011 to prevent a representative of the DTP elected in the recent general elections from sitting as a member of parliament on the basis of a prior conviction has caused controversy.

Any negative changes in the political environment, including further conflicts between senior politicians in Turkey or the failure of the Government to devise or implement appropriate economic programmes, may individually or in the aggregate adversely affect the Turkish economy and, in turn, the Bank’s business, financial condition and results of operations.

Turkey may not accede to the European Union as intended

Turkey has had a long-term relationship with the European Union. In 1963, Turkey signed an association agreement with the EU and a supplementary agreement was signed in 1970 providing for a transitional second stage of Turkey’s integration into the EU. Turkey commenced negotiations on its accession to the European Union in October 2005 and expects to join the EU at some point in the future. However, Turkey’s accession depends on a number of economic and political factors relating to both Turkey and the EU. Although the shared objective of the negotiations is accession, these negotiations are an open ended process, the outcome and timing of which cannot be guaranteed. The EU decided in December 2006 to suspend negotiations in eight out of 35 parts, or

“chapters,” and not to “close” the other 27 chapters of Turkey’s accession negotiations because of Turkey’s restrictions with respect to the Greek Cypriot Administration. Delays or other adverse developments in Turkey’s accession to the EU may have a negative effect on Turkey’s economy in general, and Turkey’s economic performance and credit ratings in particular and could, as a result, have an adverse effect on the Bank’s financial position and results of operations.

Turkey may be subject to terrorism and border conflicts

Turkey is located in a region that has been subject to ongoing political and security concerns, especially in recent years. Political uncertainty within Turkey and in certain neighbouring countries, such as Iran, Iraq, Georgia, Armenia and Syria, has historically been one of the potential risks associated with investment in Turkish companies. Political instability in the Middle East has increased since the terrorist attack in the United States of 11 September 2001. Turkey has also experienced problems with domestic terrorist and ethnic separatist groups, including the PKK. In recent years, Turkey has experienced a number of terrorist incidents, including bombings in its tourist and commercial centres in Istanbul, Ankara and various coastal towns and attacks against its armed forces, especially in south east Turkey. In October 2007, the Turkish parliament passed a resolution permitting the Turkish armed forces to organise operations against terrorist groups located in northern Iraq. Military operations continue sporadically but have met with limited success and conflict remains ongoing.

Terrorist attacks and the threat of future terrorism have had and could continue to have a material adverse effect on Turkey’s capital markets, the level of tourism, foreign investment and other elements of the Turkish economy and on the Bank’s financial condition and results of operations. While the Bank’s property and business interruption insurance covers damage to insured property directly caused by terrorism, there can be no assurance that such amounts will be sufficient to cover any losses that it may incur. Finally, escalation of the political instability in the Middle East could be a destabilising factor for Turkey and the region as a whole.

Turkey’s economy is subject to macroeconomic factors

Since the mid-1980s the Turkish economy has moved from a highly protected state-directed system to a market-oriented free enterprise system. Reforms have, among other things, largely removed price controls and reduced subsidies, reduced the role of the public sector in the economy, emphasised growth in the industrial and service sectors, liberalised foreign trade, reduced tariffs, promoted export growth, eased capital transfer and exchange controls, encouraged foreign investment, strengthened the independence of the Central Bank, led to full convertibility of the Turkish Lira by accepting Article VIII of the IMF’s Articles of Agreement and overhauled the tax system.

However, the Turkish economy has also experienced a succession of financial crises and severe macroeconomic imbalances. These include substantial budget deficits, significant balance of payments deficits, high rates of inflation and high real rates of interest. These factors have resulted in a substantial depreciation of the Turkish Lira against major foreign currencies, particularly between 1994 and 2001.

In 2001, Turkey implemented a macroeconomic programme, backed by a U.S.\$19.0 billion stand-by agreement with the IMF. The government signed a further three year stand-by agreement with the IMF in 2005. Although there were negotiations on the conditions of a new stand-by agreement between Turkey and the IMF in 2009, these negotiations were unsuccessful and the Government has refrained from signing a new agreement with the IMF, citing disagreement over issues such as funding for local government.

More recently, an IMF mission was invited to Turkey after the IMF World Bank Spring Meetings in April 2010 for discussions in accordance with Article IV of the IMF’s Articles of Agreement. Under Article IV of its Articles of Agreement, the IMF holds consultations with its members (usually on an annual basis) focusing on the relevant member’s fiscal and monetary policies, its balance of payments and external developments and the impact of its policies on growth and external accounts.

The structural transformation of the Turkish economy in the immediate aftermath of the 2001 financial crisis ushered in an episode of strong growth. From 2002 through 2007 Turkey’s GDP expanded by an average of 6.8% in real terms. This period of strong growth was driven mainly by the private sector, whose consumption and investment expenditures grew by 7.2% and 18.9% annually on average within this period. On the other hand, the public sector’s contribution to GDP growth was annually more muted as public consumption and investment expenditures expanded by 4.5% and 3.4%, respectively on average. Nonetheless, growth momentum had begun to weaken from early 2007

as pent-up private demand began to fade and political concerns from the presidential and parliamentary elections weighed on consumer and business confidence. Consequently, real GDP growth weakened to 4.7% in 2007 from 6.9% in 2006. In 2008, due to the slowdown in global economic activity and continuing political tensions in Turkey, real GDP growth was only 0.9%. The economic contraction that began in 2008 deepened in 2009 as domestic demand slumped sharply and GDP declined by 4.7%. In 2010, Turkey's real GDP growth was 8.9%, and in the first quarter of 2011, real GDP growth was 11.0%, as compared to the first quarter of 2010, although the growth rate slowed to 8.8% in the second quarter of 2011.

In October 2010, the government announced a three year medium-term economic programme from 2011 to 2013 and the implementation of a new fiscal policy which is due to come into force in 2011. Under this medium-term economic programme, the government has set growth targets of 4.5% for 2011, 5.0% for 2012 and 5.5% for 2013 as well as a gradual decrease in the net public debt to GDP ratio. Co-operation with the IMF is expected to continue for the immediate future. It is likely that this co-operation will focus on structural reform and other areas envisaged under the medium-term programme.

There can be no assurance that Turkey and the IMF will reach a mutual understanding over new macroeconomic targets and, even if agreed upon, there can be no assurance that any such agreement would help Turkey to remain economically stable during any current or future macroeconomic imbalances or that IMF support for Turkey will continue. Furthermore, there can be no assurance that Turkey will be able to remain economically stable during any periods of renewed global economic weakness. Future negative developments in the Turkish economy could impair the Bank's business strategies and have a material adverse effect on the Bank's business, financial condition and results of operations.

Turkey's economy is subject to inflation and risks relating to its current account deficit

In the past, Turkey has experienced high annual rates of inflation. This has historically been considered one of the most significant problems faced by the Turkish economy.

Over the five-year period ended 31 December 2002, the Turkish economy experienced annual inflation averaging approximately 55.1% per year as measured by the Consumer Price Index (the "CPI"). Disinflationary measures were adopted in 2002, and by 2005 annual CPI had fallen to 7.7%. Although Turkey adopted an open inflation targeting framework in 2006 with binding inflation targets, inflation, as measured by the CPI, remained in the range of 9% to 11% between 2006 and 2008, above the Central Bank's medium-range target of 4%, and was driven by a succession of inflationary shocks such as the depreciation of the Turkish Lira in 2006 and a surge of commodity prices in 2007 and 2008. Annual CPI climbed to 9.5% in 2006 (compared to the target rate of 5%) and, in 2007 and 2008, annual CPI rates were 8.4% and 10.1%, respectively. As a result of weak domestic demand and declining energy prices, annual CPI in 2009 was 6.5%, the lowest level in many years. From 31 December 2009 to 31 March 2010, inflation grew by 3.9%, due to temporary increases in government expenditure and increased taxes. However, as government expenditure was curtailed in the first half of 2010, inflation decreased, and amounted to 6.4% in 2010 and 6.2% in the first half of 2011, as compared to the same period of 2010, although inflation increased by 10.45% on a year-to-year basis by December 2011, driven by depreciation of the Turkish Lira.

Although recent policies have had some success in reducing inflation, there can be no assurance that they will continue to be successful in the future, especially given Turkey's substantial current account deficit and global liquidity conditions. If the level of inflation in Turkey were again to fluctuate or increase significantly (for any reason), then the Bank's costs may increase, and, if not accompanied by an increase in interest rates, then its operating and net margins may decrease. Inflationary pressures may also curtail the Bank's ability to access foreign financial markets and may lead to further government intervention in the economy, including the introduction of government policies that may adversely affect the overall performance of the Turkish economy. The various impacts of inflation thus may have a material adverse effect on the Bank's business, financial condition and/or results of operations.

Moreover, the size of Turkey's current account deficit could lead to exchange rate adjustments and higher inflation, which could have a material adverse effect on the Bank's business, financial condition and results of operations. The current account deficit widened significantly from U.S.\$14.0 billion (2.3% of GDP) in 2009 to U.S.\$48.6 billion in 2010 (6.6% of GDP). This rapid acceleration has raised concerns regarding financial stability in Turkey, and in recent months the Central Bank, BRSA and Ministry of Finance have initiated coordinated measures to lengthen the maturity of deposits,

reduce short-term capital inflows and curb domestic demand. The main aim of these measures has been to slow down the widening of the current account deficit by controlling the rate of loan growth.

The value of the Turkish Lira fluctuates against other currencies

The Turkish Lira appreciated by approximately 41% between the end of 2002 and the end of 2010, according to the Central Bank's CPI-based Real Effective Exchange Rate Index. Turkey had current account deficits of U.S.\$32.1 billion in 2006 (6.1% of GDP), U.S.\$38.2 billion in 2007 (5.9% of GDP), U.S.\$41.5 billion in 2008 (5.7% of GDP), U.S.\$14.0 billion in 2009 (2.3% of GDP) and U.S.\$48.6 billion in 2010 (6.6% of GDP). As signs of economic recovery have appeared, Turkey's current account deficit has started to escalate. Given Turkey's savings and investments structure, it is not possible for Turkey to achieve its targeted growth figures without current account imbalances. Notwithstanding the improvement of the current account deficit as compared to GDP over the last three years, should the current account deficit widen persistently, this may lead to a sudden adjustment in the Turkish Lira with inflationary consequences. If the downturn in the global financial markets continues, this could have an adverse effect on Turkey's debt servicing ability. Although the Turkish Lira has a more stable outlook compared to the 1990s, the exchange rate remains volatile. Any significant depreciation of the Turkish Lira against the U.S. dollar or other major currencies may adversely affect the financial condition of Turkey as a whole and may have a material adverse effect on the Bank's business, financial condition and results of operations.

Turkey is subject to earthquakes

Almost all of Turkey is classified in a high risk earthquake zone by seismologists. Almost 45% of Turkey's population and most of its economic resources are located in a first-degree earthquake risk zone. Turkey has experienced a large number of earthquakes in recent years, some of which have been quite significant in magnitude. In 1999, separate earthquakes measuring 7.5 and 7.2 on the Richter scale struck an area near the city of Izmit, and the city of Düzce, respectively, resulting in the loss of thousands of lives and the destruction of many buildings. These earthquakes resulted in substantial financial costs to Turkey. As recently as October 2011, the eastern part of the country was struck by an earthquake measuring 7.2 on the Richter scale, causing property damage and the loss of several lives. The Bank maintains insurance policies covering earthquake damages and appropriate measures have been taken to minimise the risks associated with potential earthquakes, such as operating a disaster recovery centre in a lower earthquake risk zone for the continuation of its operations. However, in the event of major earthquakes, effects from the direct impact of such events on the Group and its employees, as well as measures that could be taken by the government (such as the imposition of taxes to raise revenue for rebuilding), may have a material adverse effect on the Group. To finance in part the rebuilding of the areas affected by the large earthquakes of 1999, a package of measures was passed by the Turkish Parliament in November 1999, including a new law that subjected interest earned on domestic treasury securities issued before 1 December 1999 to an additional tax at a rate of 4% to 19% depending upon their maturity. There can be no assurance that Turkey would recover from the negative economic impact of a major earthquake or that the recent GDP growth rate would be sustainable. A severe earthquake could negatively impact the Turkish economy, which could adversely affect the Turkish banking sector and the Bank's business, financial condition and results of operations.

The Turkish government may default on its debts

Turkish banks have traditionally invested a large portion of their assets in securities issued by the Turkish government. As of 30 June 2011, 90.7% of the Bank's securities portfolio was invested in securities issued by the Turkish government (representing 17.5% of its total assets). The Bank's securities to assets ratio was 19.3% as of 30 June 2011, in comparison with the 25% sector average as of 30 June 2011. In addition to any direct losses that the Group might incur, a default, or the perception of increased risk of default, by the Turkish government in making payments on its securities or the downgrade in Turkey's credit rating would likely have a significant negative impact on the Turkish banking system generally and thus may affect the Bank's business, financial condition and/or results of operations.

Risks Related to the Turkish Banking Industry

The Turkish banking system is subject to risks

The Turkish financial sector has gone through major changes as a result of the financial liberalisation programme that started in the early 1980s. The abolition of directed credit policies, liberalisation of

deposit and credit interest rates and liberal exchange rate policies, as well as the adoption of international banking regulations, have accelerated the structural transformation of the Turkish banking sector. Since the 1980s, the Turkish banking sector has experienced a significant expansion and development in the number of banks, employment in the sector, diversification of services and technological infrastructure. The significant volatility in Turkish Lira and foreign exchange markets experienced in 1994, 1998 and in 2001, combined with the short foreign exchange positions held by many Turkish banks at those times, affected the profitability and liquidity of certain Turkish banks. In 2001, this resulted in the collapse of several banks.

Following this crisis, regulatory changes were made to strengthen the Turkish banking industry and the banking sector expanded substantially during 2002 – 2008 as inflation and interest rates declined and the public sector's borrowing requirement also declined.

However, if the general macro-economic conditions in Turkey, and the Turkish banking sector in particular, were to suffer another crisis, there can be no assurance that this would not result in further bank failures, reduced liquidity and weaker public confidence in the Turkish banking system. See “*Turkish Regulatory Environment*” for a further discussion of the Turkish banking regulatory environment.

International guidelines for banking regulation may change

In June 2004, the Basel Committee on Banking Supervision (the “**Basel Committee**”) published a report entitled “International Convergence of Capital Measurement and Capital Standards: a Revised Framework,” which sets out a new capital adequacy framework (commonly referred to as “**Basel II**”) to replace the Basel Capital Accord issued in 1988. Basel II has been adopted in many countries and although it has not yet been fully adopted in Turkey, the BRSA has taken concrete steps for the adoption of Basel II in the near future. Moreover, the addition of operational risk into the capital adequacy calculation under the Basel II Framework has been in effect under BRSA regulation since June 2007. This provision specifies that 15% of the last three years' average gross income is to be added to the denominator in a bank's capital adequacy calculation. In March 2011, the BRSA announced that Turkish banks will start to report their calculation of minimum capital requirements with respect to the Basel II Regulation from 1 July 2011 on an unconsolidated basis. Consolidated reporting also commenced in December 2011. As of the date of this Offering Memorandum, Turkish banks are required to report their risk weighted assets calculated under the standard approach of Basel II as contained in the “Turkish National Discretions”. This reporting period is seen as a “parallel run”, since banks will continue to report their risk weighted assets under both Basel I and Basel II requirements until 30 June 2012. From 30 June 2012, only Basel II standard approach requirements will be official in the credit risk reporting for minimum capital calculations. The Basel Committee has also adopted further revisions (Basel III) but there is no certainty as to whether these most recent revisions will be implemented by the BRSA, and, if so, in what form. The Bank is not able to predict whether the adoption of any revisions under Basel III may have material impact on the Turkish banking system or the Group. Although an official timetable for the adoption of Basel III regulations in Turkey has not been announced by the BRSA, the regulations are expected to be implemented between 2013 and 2018 in accordance with the transition period provided for by the Basel Committee. If these or any other international guidelines are adopted in Turkey and the Bank is unable to maintain its capital adequacy ratios above the minimum levels for any reason, then this could have a material adverse effect on the Bank's business, financial condition and/or results of operations.

Increased competition in the Turkish banking sector could have a material adverse effect on the Group

The level of competition in the Turkish banking sector has markedly increased in the past several years as a result of increased presence of public banks in the private sector and foreign bank interest in Turkey. A small number of these banks dominate this sector and, according to the Turkish Banking Association, as of 30 June 2011, the five largest banks in Turkey held, in the aggregate, 57.5% of the banking sector's aggregate loan portfolio and approximately 62.0% of aggregate bank assets in Turkey.

In addition to private banks, the Group also faces competition against the state owned financial institutions, such as T.C. Ziraat Bankası A.Ş., Türkiye Vakıflar Bankası T.A.O and Türkiye Halk Bankası A.Ş. These government-owned financial institutions historically focused on government and government-related projects but are increasingly focusing on the private sector (including retail and SMEs), leading to increased competition and pressure on margins. In particular, such government owned institutions may have access to low cost deposits (on which such institutions pay low or no

interest) through State Economic Enterprises owned or administered by the Turkish government, which could result in a lower cost of funds that cannot be duplicated by private banks. Such actions by government-owned financial institutions, in addition to ongoing competitive pressures from private financial institutions, have caused net interest margins to decline across the Turkish banking market in 2011 and such downward pressure is expected to continue at least in the short-term.

In addition, foreign banks have shown an increased interest in the banking sector in Turkey. Foreign banks such as BNP Paribas, Citigroup, Fortis (since acquired by BNP Paribas), HSBC, ING, National Bank of Greece and UniCredit have acquired interests in Turkish banks. The Bank believes that further entries into the Turkish banking sector by foreign competitors, either directly or in collaboration with existing Turkish banks, could further increase competition in the market. In addition to direct investment, foreign banks are expanding their business presences in Turkey, further increasing competitive pressures. There can be no assurance that further competitive pressures will not result in continued margin compression, which may have a material adverse effect on the Bank's business, financial condition and/or results of operations.

The profitability and profitability growth of Turkish banks, including the Group, in recent periods may not be sustainable as a result of regulatory, competitive and other factors impacting the Turkish banking sector

In December 2010, the Central Bank announced a policy of reducing interest rates while increasing Turkish Lira reserve requirements in order to tackle Turkey's current account deficit. Since that time, the Central Bank has announced significant increases in bank reserve requirements for Turkish Lira deposits as part of its strategy to lengthen the maturities of assets flowing into the country and to address concerns that maturities of liabilities in the Turkish banking sector are shorter than those of assets, which in turn exposed the sector to liquidity and interest rate risk.

The Turkish Lira reserve requirement for deposits, which was formerly a blanket 6%, has been increased on a tiered basis so that it will range from 16% for demand deposits, notice deposits and current accounts, to 9% for deposits, participation accounts and special fund pools with up to six-month maturity. Such increased reserve requirements are expected to have an adverse effect on the profitability of Turkish banks (including the Group) as Turkish banks will be required to hold reserves (in the form of non-interest bearing Central Bank reserve accounts and other lower-yielding assets), rather than engaging in credit activities. In addition, such measures could also limit or reduce growth of the Turkish economy and consequently demand for the Group's products and services. The increase in bank reserve requirements has been combined with reductions in the Central Bank's reference interest rate (one week repo rate) and a narrowing in the difference between overnight borrowing and lending rates. The Central Bank introduced a regulation which stipulates that interest rate on demand deposits may not exceed 0.25% annually. The Central Bank's reference interest rate was reduced from 7.00% to 6.5% on 17 December 2010 and to 6.25% on 21 January 2011, reduced again to 5.75% on 5 August 2011 and kept stable since then. Over the same period, the overnight borrowing rate was reduced from 5.75% to 1.75% on 12 November 2010 and to 1.5% on 17 December 2010, and then raised to 5.00% on 4 August 2011, whereas the overnight lending rate was increased from 8.75% to 9.00% on 17 December 2010, and later increased to 12.5% as of 20 October 2011.

Although the Group's profit has risen significantly in recent periods (for the year ended 31 December 2010, the Group's profit for the period was TL2.2 billion, a 40% increase from TL1.6 billion for the year ended 31 December 2009), the Group's profitability may be negatively affected in the short-term and possibly in the long-term as a result of a number of factors that are generally impacting the Turkish banking sector. According to BRSA consolidated financial statements, revenue pressure due to compression in net interest margin resulting from low interest rate environment, regulatory changes and increased competition, as well as negative trading results impacted by the month-to-month hedging instruments and a decline in other income due to deceleration in collections, were the main contributors to the 12% decline in the Bank's net profit for the first nine months of 2011 (compared to the same period in 2010). Although, the Bank's Interim IFRS Financial Statements show an increase in net profit of 1.7% for the six month period ended 30 June 2011, if the pressure on net interest margin continues, this may have a material adverse effect on the Bank's financial condition and results of operations as well as the Bank's ability to make payments under the Notes. Such factors include increased competition, particularly as it impacts net interest margins (see "*Risk Factors-Increased competition in the Turkish banking sector could have a material adverse effect on the Group*") and the Central Bank and BRSA regulatory actions that seek to limit the growth of Turkish banks through various conventional and unconventional policy measures, including increased reserve

requirements, increased general provisioning requirements and higher risk-weighting for general purpose loans.

Although the Group will seek to limit the impact of these factors through its strategy of focusing on profitable sectors and clients, rather than solely on overall growth, there is no assurance that the Group's profitability or financial position (including capitalisation levels) will not be materially and adversely impacted as a result of such factors.

The Group is subject to changes in regulation, which have in the past and may in the future change rapidly

The Group is subject to a number of banking and other regulations designed to maintain the safety and financial soundness of banks, ensure their compliance with economic and other obligations and limit their exposure to risk. These regulations include Turkish laws and regulations (and in particular those of the BRSA and the Central Bank), as well as laws and regulations of certain other countries where the Group operates. Banking laws and regulations in Turkey and the manner in which those laws and regulations are applied to the operations of financial institutions are still evolving. Furthermore, as a result of the recent global economic crisis, policy makers in Turkey, the EU and other jurisdictions have enacted or proposed various new laws and regulations and there is uncertainty as to what impact these changes may have. New regulations may be implemented rapidly, without substantial consultation with the industry, which may not allow sufficient time for the Group to adjust its strategy to deal with such changes. New regulations may increase the Group's cost of doing business or limit its activities. Turkish banking regulations have rapidly changed in the second half of 2010 and 2011 in response to Turkey's robust domestic growth, driven by higher local demand, which widened the current account deficit and strengthened capital inflows. Most recently, the Central Bank introduced a new monetary policy as a result of slowdowns in domestic growth and debt sustainability concerns in Europe. See *"-The profitability and profitability growth of Turkish banks, including the Group, in recent periods may not be sustainable as a result of regulatory, competitive and other factors impacting the Turkish banking sector"*. As some of the new banking regulations have only recently been adopted, the manner in which those regulations are applied to the operations of financial institutions is still evolving. In the future, laws or regulations might be adopted, enforced or interpreted in a manner that could have an adverse effect on the Group's business, financial condition, cash flows and results of operations. In addition, a breach of regulatory guidelines could expose it to potential liabilities or sanctions. Changes in these regulations may have a material effect on the Group's business and operations. Moreover, any failure to adopt adequate responses to such changes in the regulatory framework may have an adverse effect on the Bank's business, financial condition, cash flows and results of operations.

The Bank's primary regulator, the BRSA, uses the Bank's BRSA Financial Statements to assess the Bank's compliance with banking regulations and capital adequacy requirements. Therefore, the results of operations and financial condition of the Bank as reflected in the IFRS Financial Statements may not reflect the Bank's business, results of operations or financial condition as used to determine the Bank's performance under, and compliance with, Turkish regulations. In addition, the Bank uses BRSA Financial Statements to determine whether, and to what extent, it can undertake certain activities, such as paying dividends to shareholders. A summary of differences between IFRS and BRSA Accounting Principles is set out at *"Annex A—Summary of Differences between IFRS and BRSA Accounting Principles"*.

The Group is dependant on its banking and other licences

The banking and other operations performed by the Bank and its subsidiaries require licences by the relevant authorities in each jurisdiction in which they operate. A large majority of the Group's business depends on the Bank's Turkish banking licence from the BRSA. If the Bank loses its general banking licence, then it will be unable to perform any banking operations in Turkey. Although the Bank believes that it and its subsidiaries have the necessary licences for their banking and other operations and that each of the Bank and its subsidiaries are currently in compliance with their existing material licence and reporting obligations, there is no assurance that it will be able to maintain the necessary licences in the future. The loss of a licence, a breach of the terms of any licence or failure to obtain any further required licences in the future could have a material adverse effect on the Bank's financial condition and/or results of operations. Further description of the applicable regulatory requirements is set out in *"Turkish Regulatory Environment—Audit of Banks"* and *"Turkish Regulatory Environment—Cancellation of Banking Licence"*.

Risks Related to the Group's Business

The Group's business, results of operations, financial condition and prospects are affected by general economic conditions

Since mid-2007, the global financial crisis has been the most significant factor affecting global economic conditions. It has resulted in significant declines in the value of a broad range of real and financial assets, increased volatility in markets and reduced availability of funding. Internationally, many financial institutions sought to raise additional capital and a number have failed or merged with larger institutions. As a result of concern about the stability of the financial markets generally and the strength of counterparties in particular, many lenders and institutional investors reduced lending and, in some cases, ceased providing funding to borrowers, including other financial institutions, which has significantly reduced liquidity and the availability of credit in the global financial system.

In response to the global financial crisis, many governments implemented significant stabilisation packages, which included (among other things) the recapitalisation of banks, government guarantees of certain forms of debt, the purchase by government agencies of distressed assets and the provision by governments of guarantees of distressed assets held by banks and other financial institutions. Despite these actions, the volatility and market disruption in the global banking sector have continued.

Although financial markets responded favourably to measures taken by governments and showed signs of improvement in 2009, concerns about a sovereign debt crisis in certain European countries, including Greece, beginning in April 2010, have undermined investor confidence and resulted in a general deterioration of the financial markets.

The global financial crisis and related economic slowdown has significantly impacted the Turkish economy and the principal external markets for Turkish goods and services. As a result, Turkey suffered reduced domestic consumption and investment and a sharp decline in exports, which lead to an increase in unemployment. The growth in Turkey's GDP slowed in the fourth quarter of 2008 and Turkey's real GDP declined by 4.7% in 2009. In response to the financial crisis, the Government announced stimulus measures, including tax cuts in the housing and automotive sectors, financial support to small and medium enterprises and export credits. In addition, the Central Bank cut interest rates, reducing its overnight reference interest rate in a number of steps from 16.75% as of 20 November 2008 to 6.50% as of 14 April 2010. Effective from 19 May 2010, the Central Bank adopted the weekly repo rate fixed at 7.00% as its new reference interest, which was subsequently reduced to 6.50% on 17 December 2010, 6.25% on 21 July 2011, 5.75% on 4 August 2011 and kept stable since then. Following the implementation of fiscal and monetary measures in 2009, the Turkish economy began to recover in the fourth quarter of 2009. Turkey's real GDP grew by 8.9% in 2010 and by 10.2% in the first half of 2011 as compared to the first half of 2010.

Since then, however, massive government borrowing across Europe and elsewhere to finance bailouts of financial and other institutions, as well as massive fiscal stimulus packages, has led to a deterioration of sovereign credit among such governments as Greece, Ireland, Italy, Spain, Portugal and a number of other European economies. Doubts have also been raised about the stability of the European monetary system. Instability in global credit markets has also increased following the downgrade of U.S. sovereign debt by Standard & Poor's Ratings Services in 2011 and the recent downgrades of France and eight other eurozone governments, as well as the continued lack of resolution of the Greek debt crisis. As a result, global credit and capital markets continue to be volatile and fragile, and although the Turkish banking system has so far not required any government bailouts, there can be no assurance that a further economic downturn or financial crisis will not occur or that continued efforts to support the financial markets and banking system will be successful.

Continued uncertainty in the international financial markets, contraction of the global economy and any further tightening in credit conditions could adversely impact the Group's business and operating results as a result of:

- decreases in the business activity and deterioration of creditworthiness of companies and individuals;
- reduced demand for the Group's loan products;
- impairments on assets and/or collateral as well as increased levels of non-performing loans and amounts of loan impairment charges;

- decreases in the Group's net interest income;
- increases in borrowing costs and reduced, or no, access to capital markets due to unfavourable market conditions and increased competition for deposits; and
- decreases in fee and commission income due to a reduction in consumer demand for the Group's loan products or measures implemented by banking regulators.

If any of the above events occur, this could have a material adverse effect on the Group's business, results of operations, financial condition and prospects.

The majority of the Group's operations are in Turkey and therefore its business and results of operations are primarily affected by economic conditions in Turkey, however, global trends can also have a direct impact. As of 31 December 2010, 95.5% of the Group's total assets were located in Turkey. The economic contraction in Turkey negatively affected lending growth and caused a decline in asset quality in the Turkish banking sector. See —*"The Group is subject to credit risk in relation to its borrowers and counterparties"*. However, in 2010, Turkey's recovery to pre-crisis levels of growth and sales of non-performing loan portfolios made it possible for the Group's allowance for losses on loans and advances to decrease to TL2,382,447 thousand as of 31 December 2010, a decrease of 23% from TL3,104,169 thousand as of 31 December 2009. Although the Group's employee numbers declined by 636 employees in 2009 as a result of reduced hiring and natural attrition, the Group has since increased employee numbers but these have not yet reached 2008 levels. In addition, the Bank closed 36 branches in 2009 due to optimisation, closure and merger between the branches but new branches were opened in late 2009, 2010 and 2011 and the Bank currently has more branches than before the closures took place in 2008.

However, the recent fragile economic conditions have had a considerable negative effect on the financial condition of the Turkish banking sector in general and of the Bank in particular. See —*"The profitability and profitability growth of Turkish banks, including the Group, in recent periods may not be sustainable as a result of regulatory, competitive and other factors impacting the Turkish banking sector"*.

There can be no assurance of global economic recovery, and further deterioration in global economic or financial conditions could negatively affect Turkey's economy, the availability of funding to the Group and the Group's business, financial condition, results of operations and prospects. If the Turkish economy continues to be negatively affected by reduced economic activity, a devaluation of the Turkish Lira, inflation or an increase in domestic interest rates, this could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Group is subject to credit risk in relation to its borrowers and counterparties

The Group's businesses are subject to inherent risks concerning the credit quality of borrowers and counterparties, which have affected and are expected to continue to affect the value of the Group's assets, particularly if economic conditions in Turkey deteriorate.

Changes in the credit quality of the Group's customers and counterparties arising from systemic risks in the Turkish and global financial system, can negatively affect the value of the Bank's assets, and lead to increased write downs and provisions for loan impairment during 2008 and 2009. Increased unemployment, rising inflation, reduced corporate liquidity and profitability, increased corporate insolvencies and the inability of individuals to service their personal debt have negatively affected the Turkish banking sector, including the Bank. According to BRSA statistics, the ratio of non-performing loans to total loans in the Turkish banking sector was 3.7% as of 31 December 2008, 5.3% as of 31 December 2009, 3.7% as of 31 December 2010 and 2.9% as of 30 June 2011. Certain lending segments were much worse affected. As of 30 June 2011, the ratio of non-performing loans to total loans in the credit card area of the Turkish banking sector was 7.0% and in commercial instalment loans area was 3.8%.

Since 2006 when the merger with Koçbank was completed (see *"Business of the Bank-History"*), the Group's loan portfolio has expanded significantly, increasing the Group's exposure to credit risk associated with lending, and the Group's loan portfolio includes a significant portion of unseasoned loans. As of 30 June 2011, loans and advances to customers constituted 63.6% of the Group's consolidated total assets. The Group's business strategy is strongly focused on the retail and SME segment, as well as on credit card products and project finance lending, as these are higher margin generating asset classes. However, some of these segments are generally viewed as slightly riskier segments and could place additional pressure on the asset quality of the Group. As of 30 June 2011, the Group's loans and advances to customers in the consumer and credit card segments amounted to

17.3% and 13.6%, respectively, of the Group's loans and advances to customers. In the Turkish banking sector, retail lending is generally regarded as entailing more risk than corporate lending, and unsecured credit card lending generally entails relatively more risk than other secured retail credit products. In parallel, the Group's non-performing loans to total loans ratio in the credit cards sector has also been higher (5.2% as of 30 June 2011) compared to the level across all loans (3.1% as of 30 June 2011). The share of credit cards loans of total lending has been progressively declining (13.6% as of 30 June 2011 compared to 14.7% as of 31 December 2010 and 17.2% as of 31 December 2009) due to higher growth in other consumer loans categories, including general purpose loans, auto loans and mortgages, as well as SME lending.

The Group's total allowance for impairment was TL1,657,482 thousand, or 3.8% of gross loans and advances to customers as of 31 December 2008, TL3,104,169 thousand, or 6.9% of gross loans and advances to customers as of 31 December 2009, TL2,382,447 thousand, or 4.0% of gross loans and advances to customers as of 31 December 2010 and TL2,334,730 thousand, or 3.3% of gross loans and advances to customers as of 30 June 2011. The current level of provisions by the Group may not be sufficient and the Group may have to create significant additional provisions for possible credit losses in the future.

In addition, there can be no assurance that the Group will be able to correctly assess the creditworthiness of credit applicants. There is a centralised credit bureau in Turkey which was established in 1995 to provide exchange of information for the purpose of monitoring and controlling consumer credit information (including credit cards). Since 2009, the credit bureau also started to cover information on corporate and commercial credits. The credit bureau includes data shared by the Group and its competitors in Turkey. The information compiled at the credit bureau monitors significant trends both positive and negative, but does not include information on bankruptcy, bounced cheques and protested notes. In addition, information from other non-bank entities, such as utility companies, is not included. Therefore, the Group is not always able to confirm independently information provided by prospective clients and the increase in the Group's loan portfolio in 2010, which slowed in the first half of 2011, will require continued and improved monitoring by the Group's management of its lending policies, credit quality and adequacy of provisioning levels through the Group's risk management programme. Any failure by the Group to manage the growth of its loan portfolio or the credit quality of its creditors within prudent risk parameters or to monitor and regulate the adequacy of its provisioning levels could have a material adverse effect on the Group's business, financial condition, prospects and/or results of operations.

The Group also has a substantial portfolio of derivative financial instruments, including currency forwards, currency and interest rate swaps, options, interest rate cap and floor arrangements and credit default swaps. As of 30 June 2011, the Group's total recognised derivative assets had a notional value of TL75,508,905 thousand, and the fair values of the derivative assets and liabilities were TL461,280 thousand and TL649,844 thousand, respectively. The Group is exposed to credit risk with respect to the ability of its counterparties to meet their obligations under these derivative financial instruments.

Exposure to any or all of these credit risks could have a material adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank is subject to liquidity and refinancing risk

The Bank is exposed to liquidity risk, arising out of mismatches between the maturities of the Bank's assets and liabilities, which together with increased market volatility and changes in general economic conditions, may contribute to the Bank not being able to meet its net funding requirements at a reasonable cost, or at all. A significant portion of the Group's funding base consists of short-term debt and customer deposits and the Group has a mix of short-, medium- and long-term assets in the form of retail, consumer and corporate loans, mortgages and credit cards, which may result in asset-liability maturity gaps and ultimately liquidity problems. As of 30 June 2011, customer deposits comprised 61.3% of the Group's total liabilities and, of all customer deposits, 92.6% had maturities of three months or less.

In addition, the Group has raised part of its funding on the international markets, and may need to access additional wholesale funding in the future if deposit growth does not keep pace with growth in lending. As of 30 June 2011, the Bank had a total of TL14,777,097 thousand of funds borrowed from wholesale sources of which TL13,035,699 thousand of other borrowed funds from foreign sources and TL2,247,074 thousand of debt securities in issue, in relation to its diversified payment rights securitisation and issued bonds in local currency. In order to cover the maturity mismatch from

short-term funding and long-term lending, the Group has raised longer-term funds in the form of syndications, securitisations and other loans, almost all of which are denominated in foreign currency. As of 30 June 2011, the Group's total foreign currency denominated bank deposits and borrowings constituted 12.2% of its consolidated liabilities excluding equity and 22% of its assets with maturity of one year or over one year. The Group may have difficulties extending this type of funding source and such funding may become more difficult and costly in the event of a Turkish Lira devaluation.

Withdrawals of customer deposits could lead to liquidity gaps that the Bank would have to cover, thus incurring additional expenses, and which ultimately may have a material adverse effect on the Bank's business, financial condition and results of operations. In the event of liquidity gaps, access to other funding sources, such as Central Bank repos or the capital markets, may not be available, or may be available only at higher cost and such funding sources may be less advantageous to the Bank in other respects. The Bank's liquidity risk could be increased by market disruptions or credit downgrades which may reduce the availability of funding. The Group may also be adversely affected by changes in interest rates. For example, if interest rates increase, the interest on the Group's liabilities (predominantly short-term) may rise more quickly than on its assets, resulting in deteriorating interest margins. Either result could have a material adverse effect on the Bank's financial condition and results of operations. See "*—The Group may be negatively affected by volatility in interest rates*".

There can be no assurance that the Bank will continue to successfully manage its liquidity and the maturity profile of its funding base in the future. Particularly in light of the volatility in the market for emerging market debt, the Bank may have difficulty extending and/or refinancing its existing indebtedness. If the Bank is not able to refinance its debt and other obligations or experiences difficulty in managing its liquidity and the maturity profile of its debt could cause a material adverse effect on the Bank's business, financial condition or results of operations.

The Bank is subject to risks in its trading activities

As part of the Bank's treasury operations, it trades various securities and derivatives, including debt, equity, fixed income, currencies and commodities and related derivatives, as both agent and principal, and it derives a portion of its non-interest income from profits earned in such trades. A significant portion of the Bank's trading activities are related to customer transactions and management has put stringent measures in place that seek to limit its ultimate trading exposure.

However, the Bank may still be exposed to a number of risks related to changes in the value of such securities and derivatives, including the risk of unfavourable market price movements relative to its long or short positions, a decline in the market liquidity of the related instruments, volatility in market prices, interest rates or foreign currency exchange rates relating to these positions and the risk that the instruments with which the Bank chooses to hedge certain positions do not track the market value of those positions. If the Bank incurs any losses from these exposures, then it could reduce the Bank's income or cause the Bank to suffer losses, either of which could have a material adverse effect on the Bank's business, financial condition and/or results of operations.

The Group may be negatively affected by volatility in interest rates

In general, because the Group's assets have a longer maturity and reprice more slowly than its liabilities, the Group may benefit from a lag in the repricing of its assets compared to its liabilities in falling interest rate environments, as has been experienced in Turkey since 2008. However, in a rising interest rate environment, the Group may be adversely affected by the same repricing lag. This difference could result in an increase in interest expense relative to interest income, reducing margins and the Group's net interest income. For a description of the Group's interest rate risk management, see "*Risk Management*".

Furthermore, an increase in interest rates may reduce the demand for loans from the Group and its ability to originate loans. A decrease in the general level of interest rates may affect the Group through, among other things, increased pre-payments on its loan portfolio and increased competition for deposits. In addition, the Group has a portfolio of derivative securities which expose it to fluctuations in interest rates. As of 30 June 2011, total interest rate swap volume amounted to EUR8 billion, out of which EUR6 billion was already under hedge accounting and thus not effected by interest rate fluctuations. Interest rates are sensitive to many factors beyond the Group's control, including monetary policies pursued by the Turkish government and domestic and international economic and political conditions.

If the Group is unable for any reason to reprice or adjust the rates on its interest earning assets in response to changes in rates on its interest bearing liabilities in an expedited or an effective manner as a result of economic or other reasons, then the Group's interest income margins would be adversely affected, which could have a materially adverse effect on the Bank's results of operations.

The Group's loans and advances may be concentrated among its largest borrowers and in certain industries

As of 30 June 2011, the Group's loans and advances to its 20 largest borrowers or borrower groups amounted to TL6,141 million or 9.95% of its total loans and advances to customers, as compared with TL5,576 million or 10.7% as of 31 December 2010, TL4,129 million or 11.2% as of 31 December 2009 and TL4,160 million or 10.9% as of 31 December 2008. Any impairment in the ability of one or more of these borrowers or borrower groups to service or repay their obligations to the Group could have a material adverse effect on the Group's financial condition and results of operations. The Banking Law restricts the total financial exposure (including extension of credits, issuance of guarantees, etc.) that a bank may have to any one customer or a risk group directly or indirectly to 25% of its equity capital.

As of 31 December 2010, the public, manufacturing and other industrial sectors accounted for 25.4%, 16.8% and 26.1%, respectively, of the Group's interest earning assets and 2.24%, 23.2% and 35.1%, respectively, of the Group's loans and advances to customers. A downturn in any of these sectors, individually or in the aggregate, may adversely affect the financial condition of the companies operating in such sectors and may result in, among other things, a decrease of funds that such corporate customers hold on deposit with the Group, a default on their obligations owed to the Group or a need for the Group to increase its provisions in respect of such obligations. Similarly a downturn of any one or more of the Group's largest customers' financial positions may have similar effects.

The Group's risk management strategies and internal controls may leave it exposed to unidentified or unanticipated risks

There can be no assurance that the Group's risk management and internal control policies and procedures will adequately control, or protect the Group against, all credit, liquidity, market and other risks. In addition, certain risks may not be accurately quantified by the Group's risk management systems. Some of the Group's methods of managing risk are based upon the use of historical market data which, as evidenced by events caused by the global financial crisis, may not always accurately predict future risk exposures, which could be significantly greater than historical measures indicate.

The Group is exposed to foreign exchange and currency risks

A significant portion of the Group's assets and liabilities are denominated in foreign currencies, particularly U.S. dollars and euros. The Bank translates such assets and liabilities, as well as interest earned or paid on such assets and liabilities, and gains/(losses) realised upon the sale of such assets, to Turkish Lira in preparing its financial statements. As a result, the Group's reported income is affected by changes in the value of the Turkish Lira with respect to foreign currencies (primarily the U.S. dollar and Euro). The overall effect of exchange rate movements on the Group's results of operations depends on the rate of depreciation or appreciation of the Turkish Lira against its principal trading and financing currencies. In addition, the Group has a portfolio of derivative securities which expose it to fluctuations in the value of the Turkish Lira against foreign currencies. For a description of the Group's risk management strategies, see "*Risk Management*".

Until February 2001 it was the stated policy of the Central Bank to devalue the Turkish Lira against the U.S. dollar in line with inflation. However, in recent years the devaluation of the Turkish Lira has not been consistent with inflation rates. Annual inflation rates in Turkey (as measured by the Turkish CPI) for 2006, 2007, 2008, 2009 and 2010 were 9.7%, 8.4%, 10.1%, 6.5% and 6.4%, respectively. The value of the Turkish currency against the U.S. dollar has been volatile over the last five years, having depreciated by 4.8% in 2006, appreciated by 17.5% in 2007, depreciated by 31.3% in 2008, appreciated by 2.3% in 2009 and depreciated by 3.4% in 2010. Although the Turkish Lira/U.S. dollar exchange was relatively stable in the first half of 2011, the TL/U.S. dollar exchange rate has experienced increased volatility since 30 June 2011, and the Turkish Lira has depreciated against the dollar, and the exchange rate was TL1.8439 per dollar on 30 November 2011 compared to TL1.6157 per dollar on 30 June 2011.

Although the Group sets stringent limits and performs certain other measures aimed at reducing exchange rate risk, including but not limited to entering into foreign exchange derivative contracts,

there is no assurance such measures will be successful and fluctuations in exchange rates may adversely affect the Bank's business, financial condition and results of operations.

The Group is exposed to volatility in the securities markets

The Bank has a substantial portfolio of Turkish government debt securities, which amounted to 21.4% of the Bank's total interest earning assets as of 30 June 2011. The Bank's position in certain government securities in particular, involves a risk that downward movements in the price of these securities could have a material adverse effect on the Group's business, financial condition and results of operations. The Group has historically generated a significant portion of interest income from its securities portfolio, with interest and similar income derived from the Group's securities portfolio in 2008, 2009, 2010 and the first half of 2011 accounting for 20.4%, 18.6%, 18.6% and 19.9%, respectively, of its total interest income. Any default by the Turkish government in the payment of its securities held by the Bank would result in direct loss to the Bank. In addition, a default by the Turkish government in making payments on its treasury bills would have a significant negative impact on the Turkish economy and the Turkish banking system generally. A continued decline in the returns from the Bank's trading and investment securities, or the market value of Turkish government securities could lead to a material adverse effect on the Bank's business, financial condition and results of operations.

While the contribution of income from the Group's securities portfolio has been relatively significant over recent years, the Group expects that such income will not be as large in coming years. In particular, the robust trading gains earned during the recent global financial crisis as a result of the high level of volatility in financial markets is not expected to continue and opportunities for such gains have been declining during 2010 and 2011.

The Group is controlled by two large shareholders and has business with related parties

The Bank is controlled by KFS, which is jointly owned by Koç Holding, one of the largest conglomerate groups in Turkey, and UniCredit, an international financial services group engaged in a wide range of banking, financial and related activities in Europe. KFS owns 81.80% of the Bank's outstanding shares while the balance is held by minority shareholders. Koç Holding and UniCredit each own 50% of the shares of KFS.

The Bank believes that the involvement of Koç Holding and UniCredit has been, and will continue to be, important in the pursuit and implementation of the Bank's strategy, including providing an important source of business for the Group. Although the management of the Bank believes that these transactions are on an arm's length basis and in line with the Banking Law regulations on transactions with related parties, there can be no assurance that the interests of the Bank and its related parties will be at all times aligned with the interests of the Noteholders. There can be no assurance that these major shareholders will remain shareholders in the future or that they would continue to provide the Bank with new business in the future or provide financial or other support in the event of future financial turmoil, and there can be no assurance that the Bank's business and results of operations would not be materially adversely affected if the major shareholders cease to control the Bank.

As of 30 June 2011, the Group's total related party assets (primarily loans and advances) were TL1,267,206 thousand, or 1.2% of total assets and the Group's total related party liabilities (primarily deposits and loans), were TL9,719,455 thousand, or about 10.3% of the Group's total liabilities. The Group's related party commitments and contingent liabilities were TL1,834,638 thousand, or approximately 7.6% of the Group's total credit related commitments.

KFS indirectly through a majority vote at the General Assembly has the power to direct the election of all of the Bank's directors and determine the outcome of most matters to be decided by a vote of the Bank's shareholders. Furthermore, the interests of the controlling shareholders and/or BRSA may differ from those of the Bank and its creditors. As a result, the controlling shareholders and/or the government may prevent the Bank from making certain decisions, may take certain actions that would benefit them or may take certain actions that fail to protect the interests of the Bank's other constituencies, including investors in the Notes. The Bank's decisions and actions may prioritise the long-term interests of the Group, rather than the interest of the Noteholders. There can be no assurance that the Bank's decisions will not negatively affect the Noteholders.

The Group's growth strategy subjects it to risks associated with expansion of operations, including expansion of its branch network

In recent years, the Group has significantly expanded its business primarily through organic growth, including the expansion of its branch network. In 2007, the Bank embarked upon a plan of significant expansion of its branch network. Between July 2007 and December 2008, the Bank increased its branch network by 247 branches within the framework of its branch expansion plan, including six commercial branches. The Bank halted its expansion plans in early 2009, as it adjusted its strategy in response to the global financial crisis, but resumed opening new branches in late 2009. 11 new retail branches opened in the fourth quarter of 2009 and 34 new retail branches opened in 2010. In the first half of 2011, the Bank opened a further 19 new branches and intends to open a total of 50-60 new branches by the end of 2011.

As of 30 June 2011 approximately one-third of the Bank's branches are less than three years old, being the "newly opened branches". "Newly opened branches" refer to such branches that were opened as part of the Bank's accelerated branch expansion plan, which was launched in July 2007. "Newly opened branches" are generally not profitable and, as branches graduate they tend to experience a period of high growth, which may not be sustainable in the longer term.

There are risks associated with expansion, including higher than expected costs for opening new branches. The profitability of any new branches or new business lines may not develop as expected and may absorb resources which might better be deployed elsewhere in the Group. Any failure to manage growth and maintain focus on existing operations could have a material adverse effect on the Bank's business, financial condition or results of operations.

The Group may suffer a failure or interruption in or breach of its information systems

The Group relies heavily upon information systems to conduct its business. Any failure, interruption or breach in security of these systems could result in failures or interruptions in its risk management, general ledger, deposit servicing, loan organisation and/or other important systems. If the Group's information systems failed, even for a short period of time, then it could be unable to serve some or all customers' needs on a timely basis and could thus lose business. Likewise, a temporary shut down of the Bank's information systems could result in costs that are required for information retrieval and verification. In addition, despite its investments in IT infrastructure, failure to update and develop the Group's existing information systems as effectively as its competitors may result in a loss of the competitive advantages that it believes its information systems provide. Although the Group has developed business continuity plans, back up systems and a disaster recovery centre, and expects to be able to continue some of its operations through branches in case of emergency, no assurance can be given that failures or interruptions will not occur or that the Group will be able to adequately address them if they do occur. Accordingly, the occurrence of any failures or interruptions could have a materially adverse effect on the Bank's business, financial condition and/or results of operations.

The Group's business may be subject to labour disputes

The Group is exposed to the risk of labour disputes and other industrial actions. In total, as of 30 June 2011, 9,416 of the Bank's employees are members of trade unions, amounting to approximately 65% of all the Bank's employees. The Bank may experience strikes, work stoppages or other industrial actions in the future. Any such action could disrupt operations, possibly for a significant period of time, result in increased wages and benefits or otherwise have a material adverse effect on the Bank's business, financial condition or results of operations.

The Group is subject to operational risk

Similar to other financial institutions, the Group is susceptible to, among other things, fraud by employees or outsiders, unauthorised transactions by employees and other operational errors (including clerical or record keeping errors and errors resulting from faulty computer or telecommunications systems). The Group is also subject to service interruptions from time to time for third party services such as telecommunications, which are beyond the Group's control. Such interruptions may result in interruption to services to the Group's branches and/or impact customer service. Given the Group's high volume of transactions, errors may be repeated or compounded before they are discovered and rectified. In addition, a number of banking transactions are not fully automated, which may further increase the risk that human error or employee tampering will result in losses that may be difficult to detect for any bank to detect quickly or at all. While the Group maintains a system of controls designed to monitor and control operational risk, there can be no assurance that the Group will not suffer losses from such risks. Losses from the failure of the

Group's system of internal controls to discover and rectify such matters could have a material adverse effect on the Bank's business, financial condition and/or results of operations. Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either the Bank or the Group will be unable to comply with its obligations as a company with securities admitted to the Official List.

The Group is subject to risks associated with money laundering and terrorist financing

The Group has implemented internal measures to prevent it from being used as a conduit for money laundering or terrorist financing. The Group believes that it is in compliance with applicable anti-money laundering and anti-terrorist financing laws and regulations. The Group has adopted various policies and procedures, including internal control and "know-your-customer" procedures, aimed at preventing money laundering and terrorist financing. The Bank's anti-money laundering policies and procedures are based upon, and the Bank believes that such policies and procedures are in compliance in all material respects with, applicable provisions of Turkish law and laws in other jurisdictions. However, such measures, procedures and compliance may not be completely effective in preventing third parties from using the Bank as a conduit for money laundering (including illegal cash operations) or terrorist financing without the Bank's knowledge. If the Group is associated with money laundering (including illegal cash operations) or terrorist financing, then the Bank could suffer serious damage to its reputation, including among its network of correspondent banks in foreign countries, which could affect its ability to carry on its business and provide services to its customers. The Group could also become subject to fines, sanctions and/or legal enforcement (including being added to any "blacklists" that would prohibit certain parties from engaging in transactions with the Group), materially adversely affecting its business, results of operations or financial condition.

The Group is dependent on its senior management and other personnel

The Bank is dependent upon its senior management to implement its strategy and the operation of its day-to-day business. In addition, retail, corporate and other business relationships of members of senior management are important to the conduct of the Bank's business. If members of the Group's senior management were to leave, then the relationships that those employees have that have benefited the Group may not continue with the Group.

In addition, the Bank's continuing success depends, in part, upon its ability to attract, retain and motivate qualified and experienced banking and management personnel. Any failure to recruit and retain necessary personnel or manage its personnel successfully could have a material adverse effect on the Bank's business, financial condition and/or results of operations.

The Bank is appealing a judgment in the Istanbul Commercial Court and has not recorded any provisions in its financial statements in respect of the judgment

The Bank is a defendant in a lawsuit filed by a Turkish company with respect to amounts collected by the Bank under an agreement for transfer of shares in exchange for a profit sharing arrangement following the bankruptcy of the company in 1992. The litigation commenced in 2005. In May 2010, the Istanbul Commercial Court issued a judgment against the Bank in the amount of TL25,000 thousand plus accrued interest. The Bank has filed an appeal and has provided a letter of guarantee in the amount of approximately TL150,000 thousand in respect of the original judgment (including accrued interest). The Bank has not recorded any provisions in its financial statements as of 30 September 2011 in respect of this litigation. Although the Bank expects the Court of Appeals to resolve in its favour, if the Bank is not successful in its appeal of the judgment, this could materially adversely affect the Bank's results of operations.

Risk Relating to the Notes

There is no active trading market for the Notes

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Group. Although application has been made for the Notes to be admitted to listing on the official list and trading on the London Stock Exchange's regulated market, there is no assurance that such application will be accepted or that an active trading market will develop. Finally, circumstances may occur in which the interests of such holders may differ from those of the other Noteholders. See "Share Capital and Ownership—

Controlling Shareholders” and “Related Party Transactions”. Accordingly, there can be no assurance as to the development or liquidity of any trading market for the Notes.

The Notes may be redeemed prior to maturity

In the event that the Bank would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Turkey or any political subdivision thereof or any authority therein or thereof having power to tax, the Bank may redeem all outstanding Notes in accordance with the Conditions. In particular, the withholding tax rate on interest payments in respect of bonds issued by Turkish entities outside of Turkey varies depending on the original maturity of such bonds. Pursuant to Turkish law, with respect to bonds with a maturity of less than one year, the withholding tax rate on interest is 10%, with respect to bonds with a maturity at least of one and less than three years, the withholding tax rate on interest is 7%, with respect to bonds with a maturity of at least three and less than five years, the withholding tax rate on the interest is 3% and for bonds with a maturity of five years or more the withholding tax rate is 0%. Accordingly, the withholding tax rate on interest on the Notes is 0%.

In addition, the Conditions provide that the Notes are redeemable at the Bank’s option in certain other circumstances and accordingly the Bank may redeem the Notes at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Notes.

Investors may have difficulty enforcing foreign judgments against the Bank or its management

Many of the Bank’s directors and executive officers are residents of Turkey and a substantial portion of the assets of the Bank and such persons are located in Turkey. As a result, it may be difficult for investors to effect service of process upon the Bank or such persons outside Turkey, or to enforce judgments or arbitral awards obtained against such parties outside Turkey.

Under the International Private and Procedure Law of the Republic of Turkey (Law No. 5718), a judgment of a court established in a country other than the Republic of Turkey may not be enforced in Turkish courts in certain circumstances. Although Turkish courts have recognised enforceable judgments of English courts on the basis that there is *de facto* reciprocity between the United Kingdom and Turkey with respect to enforcement of judgments of their respective courts, there is no treaty between the United Kingdom and Turkey setting out the reciprocal enforcement of judgments expressly.

The Conditions of the Notes are governed by English law and the terms are specified with reference to that law as in effect as of the date of this Offering Memorandum. Similarly, the enforcement rights of the Noteholders against the Bank and its assets in Turkey assume the application of Turkish law as presently in effect. Any possible judicial decision or change to English or Turkish law or administrative practice after the date of this Offering Memorandum may impact the Notes.

The Global Notes are held by or on behalf of DTC, Euroclear and Clearstream, Luxembourg

The Notes will be represented by one or more Global Notes, except in certain limited circumstances described in the Global Notes, that may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg or may be deposited with a nominee for DTC (each as defined previously in this Offering Memorandum). Except in the circumstances described in each Global Note, investors will not be entitled to receive Notes in definitive form. Each of DTC, Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Note held through it. While the Notes are represented by a Global Note, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants.

While the Notes are represented by Global Notes, the Bank will discharge its payment obligations under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in the Global Notes must rely on the procedures of the relevant clearing system and its participants to receive payments under the Notes. The Bank has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Notes are only tradeable in the minimum denomination

As the Notes are issued in denominations consisting of the minimum denomination of U.S.\$200,000 plus higher integral multiples of U.S.\$1,000, Notes can be traded in amounts in excess of U.S.\$200,000 that are not integral multiples of U.S.\$200,000. In such case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than U.S.\$200,000 may not receive an Individual Note Certificate in respect of such holding (should Individual Note Certificates be printed) and would need to purchase an additional principal amount of Notes such that its holding amounts to at least U.S.\$200,000 in order to be able to trade such Notes.

Modification, waivers and substitution

The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

Transfer of the Notes will be subject to certain restrictions

Although the Notes have been registered with the CMB as debt securities to be offered outside Turkey, the Notes have not been and will not be registered under the Securities Act or any U.S. state securities laws. Prospective investors may not offer or sell the Notes, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Similar restrictions will apply in other jurisdictions. Prospective investors should read the discussion under the heading “*Transfer Restrictions*” for further information about these transfer restrictions. It is their obligation to ensure that their offers and sales of the Notes within the United States and other countries comply with any applicable securities laws.

The market price of the Notes may be volatile

The market price of the Notes could be subject to significant fluctuations in response to actual or anticipated variations in the Group’s operating results, adverse business developments, changes to the regulatory environment in which the Group operates, changes in financial estimates by securities analysts and the actual or expected sale of a large number of Notes, as well as other factors, including the trading market for notes issued by or on behalf of the Republic of Turkey as a sovereign borrower. In addition, in recent years the global financial markets have experienced significant price and volume fluctuations which, if repeated in the future, could adversely affect the market price of the Notes without regard to the Group’s results of operations or financial condition.

Financial turmoil in emerging markets could cause the price of the Notes to suffer

While in recent years Turkey has undergone significant political and economic reform, which has increased domestic political and economic stability and contributed to economic growth, Turkey is nonetheless considered by international investors to be an emerging market. In general, investing in the securities of issuers that have operations primarily in emerging markets like Turkey involve a higher degree of risk than investing in the securities of issuers with substantial operations in the United States, the countries of the European Union or similar jurisdictions. The market price of the Notes is influenced by economic and market conditions in Turkey and, to a varying degree, economic and market conditions in both emerging market countries and more developed economies including those in the European Union and the United States. Financial turmoil in Turkey and emerging markets in the past have adversely affected market prices in the world’s securities markets for companies that operate in developing economies. Even if the Turkish economy remains relatively stable, financial turmoil in these countries could materially adversely affect the market price of the Notes.

Exchange rate risks and exchange controls

The Bank will pay principal and interest on the Notes in U.S. dollars. This presents certain risks relating to currency conversions if an investor’s financial activities are denominated principally in a currency or currency unit (the “**Investor’s Currency**”) other than U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to a devaluation of the U.S. dollars or a revaluation of the Investor’s Currency) and the risk that authorities with jurisdiction over

the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the U.S. dollar would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

The Notes constitute unsecured obligations of the Bank

The Bank's obligations under the Notes constitute unsecured obligations of the Bank. Accordingly, any claims against the Bank under the Notes would be unsecured claims. The ability of the Bank to pay such claims will depend upon, among other factors, its liquidity, overall financial strength and ability to generate asset flows.

Claims of Noteholders under the Notes are effectively junior to those of certain other creditors

The Notes are unsecured and unsubordinated obligations of the Bank. Subject to statutory preferences, the Notes will rank equally with any of the Bank's other unsecured and unsubordinated indebtedness. However, the Notes will be effectively subordinated to all of the Bank's secured indebtedness, to the extent of the value of the assets securing such indebtedness, and other preferential obligations under Turkish law (including, without limitation, liabilities that are preferred by reason of reserve and/or liquidity requirements required by law to be maintained by the Bank with the Central Bank, claims of individual depositors with the Bank to the extent of any excess that such depositors are not fully able to recover from the SDIF, claims that the SDIF may have against the Bank and claims that the Central Bank may have against the Bank with respect to certain loans made by it to the Bank).

Credit ratings may not reflect all risks

In addition to the ratings on the Notes provided by Moody's and Fitch, one or more other independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Notes. Credit ratings assigned to the Notes do not necessarily mean that they are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. Similar ratings on different types of notes do not necessarily mean the same thing. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes or the Borrower could adversely affect the price that a subsequent purchaser will be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person within its jurisdiction to an individual resident in that other Member State (the "**Disclosure of Information Method**"), except that Austria and Luxembourg instead may impose a withholding system for a transitional period (unless during such period they elect otherwise) (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland) with effect from the same date.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Bank nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on a payment made by a Paying Agent, the Bank will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the directive.

Further Notes may be issued without the consent of the Noteholders

The Bank may from time to time create and issue further Notes without the consent of the Noteholders, subject to terms and conditions which are the same as those of the Notes, or the same except for the amount of the first new payment of interest. Such new Notes may be consolidated and form a single series with the outstanding Notes, provided, however, that such further notes will be fungible for U.S. federal income tax purposes, even if doing so may adversely affect the value of the original Notes.

U.S. persons investing in the Notes might have indirect contact with countries sanctioned by the Office of Foreign Assets Control of the U.S. Department of Treasury as a result of the Bank's investments in and business with countries on the sanctions list

The Office of Foreign Assets Control of the U.S. Department of Treasury (“OFAC”) administers sanctions regulations that restrict the ability of U.S. persons to invest in, or otherwise engage in business with, certain embargoed countries, including Iran, Syria and Libya, and specially designated nationals and other OFAC sanctioned persons and entities (together “**OFAC Sanction Targets**”). In addition, the U.S. Department of State, other U.S. governmental entities, the United Nations, the European Unions and other governments also administer and enforce sanctions in countries, persons or entities in the Middle East. As the Group is not a Sanction Target, OFAC regulations do not prohibit U.S. persons from investing in, or otherwise engaging in business with, the Group; however, to the extent that the Group invests in, or otherwise engages in business with, Sanction Targets directly or indirectly, U.S. persons investing in the Group may incur the risk of indirect contact with Sanction Targets. The Group's current policy is not to engage in any business with Sanction Targets.

USE OF PROCEEDS

The Bank will incur various expenses in connection with the issue of the Notes, including, amongst other things, underwriting fees, legal counsel fees, rating agencies expenses and listing expenses. Total commissions, fees and expenses relating to the offering of the Notes are estimated to be between U.S.\$2,000,000 and U.S.\$2,500,000. The Bank will use the net proceeds for general corporate purposes.

EXCHANGE RATES

The following table sets forth, for the periods indicated, information concerning the period average and period-end buying rates for U.S. dollars for the periods indicated. The rates set forth below are provided solely for your convenience and were not used by the Bank in the preparation of the Bank's consolidated financial statements included elsewhere in this Offering Memorandum. No representation is made that Turkish Lira could have been, or could be, converted into U.S. dollars at that rate or at any other rate.

Period Average ⁽¹⁾	TL per U.S.\$	Period End ⁽²⁾	TL per U.S.\$
For the month ended 30 November 2011	1.7517	30 November 2011	1.7978
For the six months ended 30 June 2011 ..	1.5250	30 June 2011	1.6157
2010	1.4992	31 December 2010	1.5376
2009	1.5456	31 December 2009	1.4873
2008	1.2985	31 December 2008	1.5218
2007	1.2885	31 December 2007	1.1593
2006	1.4287	31 December 2006	1.4056
2005	1.3393	31 December 2005	1.3418
2004	1.4211	31 December 2004	1.3363
2003	1.4863	31 December 2003	1.3933
2002	1.5058	31 December 2002	1.6345
2001	1.2254	31 December 2001	1.4396
2000	0.6237	31 December 2000	0.6718

Source: Central Bank of Turkey

(1) For the periods between 2000 and 2008: Represents the arithmetic average of the month end closing rates of the TL/U.S.\$ exchange rates.

For the periods after 2008: Represents the arithmetic average of the monthly averages, where monthly averages were calculated by taking the daily average of the TL/U.S.\$ exchange rates.

Amounts in Turkish Lira with respect to periods before 2005 have been translated into New Turkish Lira at an exchange rate of TL1,000,000 = TL1.00.

(2) Represents the TL/U.S.\$ exchange rates for the purchase of U.S. Dollars determined by the Central Bank on the previous working day. Amounts in Turkish Lira with respect to periods before 2005 have been translated into New Turkish Lira at an exchange rate of TL1,000,000 = TL1.00.

CAPITALISATION OF THE BANK

The following table sets forth the consolidated capitalisation of the Group as of 30 June 2011. The information in this table has been extracted from the Interim IFRS Financial Statements. This table should be read in conjunction with “*Use of Proceeds*”, “*Recent Developments*”, “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” and the Interim IFRS Financial Statements included elsewhere in this Offering Memorandum.

	As of 30 June 2011	
	(U.S.\$, thousands) ⁽¹⁾	(TL thousands)
Indebtedness		
Subordinated debt	1,525,900	2,425,266
Debt securities in issue	1,413,788	2,247,074
Other	1,868,964	2,970,531
Equity		
Share capital and share premium	3,034,012	4,822,259
Other reserves	218,981	348,049
Retained earnings	4,310,210	6,850,648
Equity attributable to equity holders of the Parent	7,563,204	12,020,956
Equity attributable to non-controlling interest	37,234	59,179
Total equity	7,600,437	12,080,135
Total capitalisation	12,409,089	19,723,006

Note:

(1) For the convenience of the reader, these figures have been translated into U.S. dollars at the rate of TL1.5894 = U.S.\$1.00, which corresponds with the Bank’s Published Exchange Rate on 30 June 2011. Such translation should not be construed as a representation that the TL amounts have been converted into U.S. dollars pursuant to the requirements of IFRS.

There has been no material change in the Bank’s capitalisation since 30 June 2011.

RECENT DEVELOPMENTS

Unless otherwise noted, the following summary financial and operating data as of 30 September 2011 and 30 September 2010 and balance sheet information as of 30 September 2011 and 31 December 2010 have been extracted from the Interim BRSA Financial Statements. This information should be read in conjunction with such Interim BRSA Financial Statements and the notes thereto set forth on page F-2 of this Offering Memorandum.

The Interim BRSA Financial Statements are not directly comparable to the annual and half-yearly financial information provided elsewhere in this Offering Memorandum, which is prepared in accordance with IFRS. There are certain accounting differences between Turkish Accounting Standards and IFRS. For a description of certain of the more significant differences between IFRS and Turkish Accounting Standards, see “Annex A—Summary of Differences Between IFRS and BRSA Accounting Principles”.

Significant Factors Affecting the Group’s Financial Condition and Results of Operations for the Nine Month Period Ended 30 September 2011.

The Group’s financial condition, results of operations and prospects depend significantly upon the macroeconomic conditions prevailing in Turkey as well as certain other factors. The impact of these and other potential factors may vary significantly in the future and many of these factors are outside the control of the Group. Prospective investors should (among other things) consider the factors set forth under “*Forward-Looking Statements*” and “*Risk Factors*”. The following describes the most significant of such factors in the first nine months of 2011.

Turkish Economy and Regulatory Environment

Turkey’s economy has continued to grow during the first nine months of 2011, with forecasted GDP growth of 8% for the year 2011 according to the Turkish government. As of November 2011, current account deficit accounted for 10.1% of GDP and the Central Bank expects that the current account deficit will decline during 2012. Inflation reached 10.45% at the end of 2011, yet is expected to decline during the second half of 2012 due to the economic slowdown. The Central Bank has taken a number of steps since late 2010 to regulate and slow down Turkey’s rapid growth and current account deficit and is currently applying a tight approach focused on strengthening the Turkish Lira and mitigating inflationary pressure. See “*Risk Factors—Risks Related to the Turkish Banking Industry—The profitability and profitability growth of Turkish banks, including the Group, in recent periods may not be sustainable as a result of regulatory, competitive and other factors impacting the Turkish banking sector*” and “*Risk Factors—Risks Related to Turkey—Turkey’s economy is subject to inflation and risks relating to its current account deficit*”. In an effort to strengthen the Turkish Lira and mitigate inflationary pressure, the Central Bank increased its overnight lending rate from 9% to 12.5% on 20 October 2011, thereby widening the interest rate corridor between the 12.5% overnight lending rate and the overnight borrowing rate of 5%. The Central Bank balanced this tightening by reducing the Turkish Lira reserve requirement rates on 20 October 2011. However, in January 2012 the Central Bank implemented additional tightening measures aimed to improve flexibility and predictability with respect to interest rates. The Central Bank also started direct foreign currency interventions after a long period of a no intervention policy, intended to prevent currency basket level breaching 2.20.

However, as a result of continuing volatility in the EU and globally as a result of on-going concerns regarding EU sovereign and bank defaults, growth in the Turkish economy is expected to slow in the last quarter of 2011 and through 2012 and it is difficult to predict any actions that may be taken by Turkish and other regulators in respect of the on-going volatility.

Net Interest Margin Changes

The following table provides the Group's net interest margin and average spread for the nine month periods ended 30 September 2011 and 2010:

	For the nine month periods ended 30 September	
	2011	2010
Net interest margin ⁽¹⁾	3.4%	4.8%
Average spread ⁽²⁾	3.3%	3.8%

(1) The Group's net interest income as a percentage of its total average interest earning assets. Total average interest earning assets are calculated as the average of the quarter-end balances for the applicable year and the end of the previous year.

(2) Difference between the weighted average interest rate of the Group's average interest-earning assets and interest-bearing liabilities. Average interest-earning assets and interest-bearing liabilities are calculated as the average of the quarter-end balances for the applicable year.

The following table provides the Group's net interest margin for the last four quarterly periods:

	For the three month periods ended			
	31 December 2010	31 March 2011	30 June 2011	30 September 2011
Net interest margin ⁽¹⁾	4.4%	3.7%	3.4%	3.3%

(1) The Group's net interest income as a percentage of its total average interest earning assets. Total average interest earning assets are calculated as the average of the quarter end balances for the applicable period and the end of the previous period.

In the first nine months of 2011, there has been continuing downward pressure on net interest margins across the Turkish banking sector as a result of increased competition and regulation, which has negatively impacted the Group. In particular, although loan yields have stabilised over the first nine months of 2011, deposit costs have increased as a result of a high degree of competition among Turkish banks to attract deposits (especially TL denominated deposits). See "*Risk Factors—Risks related to the Group's Business—The Group may be negatively affected by volatility in interest rates*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operation—Significant Factors Affecting Results of Operations—Interest Rates*". According to the Turkish Banking Association, the Group's net interest margin of 3.4% for the nine month period ended 30 September 2011 was in line with the Turkish banking sector average of 3.4% for the same period.

Analysis of Results of Operations for the Nine Month Periods Ended 30 September 2011 and 2010

The Group had a net profit after minority of TL1,647,682 thousand in the first nine months of 2011 compared to a net profit of TL1,865,817 thousand for the same period of the previous year, a decrease of 11.7%. The Group's cost to income ratio increased to 44% for the nine month period ended 30 September 2011 from 40.3% for the nine month period ended 30 September 2010 due to pressure on revenues from declining margins despite tight cost management.

The table below summarises the Group's income statement for the nine month periods ended 30 September 2011 and 2010, the components of which are described in greater detail below:

For the nine month periods ended 30 September			
	2011	2010	% Change
<i>(TL thousands)</i>			
Income Statement Data			
Interest income.....	5,625,324	4,767,607	18
Interest expense.....	(2,927,970)	(2,063,901)	42
Net interest income	2,697,354	2,703,706	—
Net fees and commissions income	1,434,418	1,270,993	13
Dividend income	5,891	1,082	445
Trading gain/(loss) (net).....	(67,703)	(1,829)	3,602
Other operating income	722,845	868,500	(17)
Total operating income	4,792,805	4,842,452	(1)
Provision for impairment of loans and other receivables...	(641,620)	(589,051)	9
Other operating expenses	(2,113,760)	(1,954,095)	8
Net operating income/(loss)	2,037,425	2,299,306	(11)
Profit/(loss) before taxes from continuing operations	2,048,228	2,303,300	(11)
Income/(loss) from investments accounted based on equity method	10,803	3,994	170
Tax provisions for continuing operations	(395,532)	(433,006)	(9)
Net profit/loss	1,652,696	1,870,294	(12)
Minority interest profit/losses	5,014	4,447	13
Group's profit/loss	1,647,682	1,865,817	(12)

Certain of the Group's key ratios are set forth below.

	30 September 2011	31 December 2010
<i>(BRSA consolidated)</i>		
Return on average equity (excluding minority interest) ⁽¹⁾	20.8%	29.6%
Return on assets (excluding minority interest) ⁽¹⁾	1.9%	3.0%
Capital adequacy ratio ⁽²⁾	13.6%	15.4%
Tier 1 capital ⁽²⁾	11.0%	11.7%
Cost to income ⁽³⁾	44.0%	40.3%
Free capital ratio ⁽⁴⁾	9.2%	7.8%
Non-performing loans to total cash loans	3.0%	3.4%
Loans-to-deposit ratio	103%	98%
Cost to average total assets	3.4%	2.7%

(1) the average is calculated as the average of the amounts on 30 September 2011 and 31 December 2010

(2) Calculated in accordance with BRSA regulations

(3) Represents non-interest expenses divided by total operating income before provisions and non-interest expense

(4) Total shareholders' equity excluding investment in associates, goodwill, other intangible assets, property and equipment and deferred income tax assets divided by total assets

Key ratios related to P&L items are compared on an annual basis. Therefore, 30 September 2011 figures are compared with 30 September 2010 figures.

Net Interest Income

Based upon the Interim BRSA Financial Statements for the nine month period ended 30 September 2011, the Group's net interest income remained relatively stable at TL2,697,354 thousand, a decrease of less than 1% compared to TL2,703,706 thousand for the nine month period ended 30 September 2010. While the Group's interest expense increased by 41.9% in the first nine months of 2011 compared to the same period in the previous year as a result of both increased cost of deposits due to high competition as well as strong deposit volume growth of 19% in the nine month period ended 30 September 2010 (compared to the sector average of 11%), this was set off by an increase in interest income of 18% over the same period.

The Group's interest income is primarily attributable to interest obtained from loans, which amounted to TL4,080,165 thousand (72.5% of total interest income) for the nine month period ended 30 September 2011, a 18.5% increase compared to TL3,444,447 thousand (72.2% of total interest income) for the same period of the previous year. The increase was mainly attributable to an increase in loan volumes, which increased by 25% in the first nine months of 2011, primarily driven by increases in TL denominated retail and SME loans and the continuing impact of upward loan repricing, which helped to stabilise loan yields from the second quarter of 2011 onwards. The Group's remaining interest income mainly derives from interest received from marketable securities portfolio, which amounted to TL1,186,823 thousand (21.1% of the Group's total interest income) in the first nine months of 2011, a 25.3% increase compared to TL947,468 thousand (19.9% of the Group's total interest income) for the same period of the previous year. The increase was due to an increase in interest income from available-for-sale financial assets, which increased by 192.2% in the first nine months of 2011 compared to the same period in the previous year, while the available-for-sale financial assets portfolio increased by 97% during the same period. The yield on the Group's securities portfolio was relatively stable over 2011.

Net Fees and Commission Income

The Group's net fees and commission income for the nine month period ended 30 September 2011 amounted to TL1,434,418 thousand, an increase of 12.9% from TL1,270,993 thousand for the nine month period ended 30 September 2010. This increase was mainly driven by loan volume growth and repricing of certain consumer loan fees, new products launches and strong performance of fee generating products such as, among others, bancassurance, trade finance and cash management, offset to some extent by lower caps on certain mutual fund and credit card fees, a decrease in assets under management to TL 8.8 billion from TL 9.0 billion due to market volatility and a decline in the revolving ratio on credit cards. The total number of credit cards issued increased to approximately 8.1 million as of 30 September 2011.

Other Operating Income

Other operating income for the nine month period ended 30 September 2011 was TL722,845 thousand, a decrease of 16.8% from TL868,500 thousand for the nine month period ended 30 September 2010. The decrease in other operating income was primarily due to decelerating collection performance.

Provisions for Impairment of Loans and Other Receivables

Provisions for impairment of loans and other receivables for the nine month period ended 30 September 2011 amounted to TL641,620 thousand, an increase of 8.9% from TL589,051 thousand for the nine month period ended 30 September 2010. Although loan loss provisions (specific and general) only increased 1% during the first nine months of 2011, the 8.9% increase in total provisions for impairment of loans and other receivables for the period can be attributed to the increase in impairment of financial assets at fair value through profit or loss, available for sale financial assets and held-to-maturity investments. The total cost of risk (net of collections) increased to 0.35% in the nine months ended 30 September 2011 compared to (0.15%) in the same period in 2010, as 2010 significantly benefitted from high collections activity following the abatement of the global financial crisis.

Other Operating Expenses

Other operating expenses for the nine month period ended 30 September 2011 were TL2,113,760 thousand, an increase of 8.2% from TL1,954,095 thousand for the nine month period ended 30 September 2010. This increase, which was in line with general inflation, was primarily driven by increased personnel expenses due to a one-off bonus payment in the first quarter of 2011, and despite

a relatively stable headcount (2% increase since the beginning of 2011 to date) and focus on cost management (with personnel costs only increasing by 2% between the nine month periods ended 30 September 2010 and 2011). As of 30 September 2011, the Bank had 894 branches (including 753 retail and SME branches, 32 private banking branches, three corporate branches and 100 commercial branches, one off-shore branch, two free zone branches and three satellite branches), including 26 new branches opened during the first nine months of 2011, and it is continuing to expand its branch network in Turkey, expecting to have a total of approximately 910 branches by the end of 2011. Total number of employees increased to 17,152 as of 30 September 2011.

Financial Condition

The table below sets forth the components of the Group's balance sheet data as of 30 September 2011 and 31 December 2010:

	30 September 2011	31 December 2010
	(TL thousands)	
Balance Sheet Data		
Cash and balances with Central Bank.....	11,650,092	6,034,426
Loans and receivables, net.....	68,425,264	54,675,862
Net financial assets at fair value through profit or (loss).....	719,206	1,070,115
Net financial assets available-for-sale.....	7,695,035	5,875,980
Net held-to-maturity investments.....	12,590,930	12,974,944
Total assets.....	115,897,794	92,814,058
Deposits.....	65,854,644	55,207,002
Funds borrowed.....	12,877,892	10,073,070
Shareholders' equity.....	12,008,881	10,745,769
Total Liabilities and shareholders' equity.....	115,897,794	92,814,058

Total Assets

The Group had total assets of TL115,897,794 thousand as of 30 September 2011, which in comparison with 31 December 2010 was a 24.9% increase. The largest share of the increase in total assets in the first nine months of 2011 came from the Group's loans and receivables portfolio, which increased 25.1% to TL68,425,264 thousand as of 30 September 2011 from TL54,675,862 thousand at 31 December 2010, in line with the Bank's customer focused strategy and mainly driven by high margin Turkish Lira retail and SME lending and foreign currency project finance. The percentage of loans and receivables in total assets remained unchanged as of 30 September 2011 compared to 31 December 2010, totalling approximately 59%.

The percentage of non-performing loans to total cash loans decreased to 3.0% as of 30 September 2011 from 3.4% as of 31 December 2010. The specific coverage on non-performing loans without taking collateral into consideration decreased to 72% as of 30 September 2011, from 77% as of 31 December 2010 as a result of the transfer of two large corporate files from watch loan category to non-performing loan category at a lower provisioning level. The Group's total securities (comprising financial assets at fair value, financial assets available-for-sale and held-to-maturity investments) increased 5.5% to TL21,005,171 thousand as of 30 September 2011 from TL19,921,039 thousand as of 31 December 2010, primarily as a result of an increase in the available-for-sale portfolio, which increased by 31% since the beginning of the year. The mix of securities was approximately 51% foreign currency (virtually all fixed rate) and 49% Turkish Lira of which 53% were fixed rate and 47% were floating rate. The percentage of securities in total assets declined from 21% to 18% for the same period, in line with the Group's strategy of focusing on customer-oriented balance sheet, incorporating a relatively high proportion of loans and a low proportion of securities.

In November 2011, the Bank sold non-performing loan portfolio of credit cards and individual loans with aggregate principal amounts of TL290 million, for a total consideration of TL45.8 million.

Total Liabilities and Shareholders' Equity

On the liability side, deposits increased by 19.3% to TL65,854,644 thousand as of 30 September 2011 from TL55,207,002 thousand as of 31 December 2010, and constituted 56.8% of the Group's total liabilities as of 30 September 2011 (compared to 59.5% as of 31 December 2010). The growth in deposits was slower than the growth in loans during the beginning of 2011, however, deposits grew more rapidly in the third quarter of 2011. The maturity profile of customer deposits, which contribute 98% of total deposits, also slightly increased over the same period, as a result of stable inflation levels in Turkey and the Group's emphasis on lengthening maturity.

Funds borrowed increased 27.8% to TL12,877,892 thousand as of 30 September 2011 from TL10,073,070 thousand as of 31 December 2010 as a result of continued diversification of funding, including international syndicated loans and Turkish domestic funding.

The Group's shareholders' equity increased by 11.8% to TL12,008,881 thousand as of 30 September 2011 from TL10,745,769 thousand as of 31 December 2010 as a result of current year's profit.

According to BRSA consolidated figures, the Group had a capital adequacy ratio of 13.6% as of 30 September 2011 as compared to 15.4% as of 31 December 2010, principally as a result of an increase in the Group's risk-weighted assets.

Off-Balance Sheet Commitments

The Group's total off-balance sheet commitments increased by 17.3% to TL268,135,199 thousand as of 30 September 2011, from TL228,679,874 thousand as of 31 December 2010. The largest share of the increase in total off-balance sheet commitments in the first nine months of 2011 came from the Group's derivative financial instruments portfolio, which increased 40% to TL85,374,550 thousand as of 30 September 2011 from TL60,888,725 thousand as of 31 December 2010, due to increase in the volume of hedging transactions.

Segment Results

The following tables set forth certain data for the Group's segments for the nine months ended 30 September 2011 and 2010:

30 September 2011	Retail Banking	Corporate and Commercial Banking	Private Banking and Wealth Management	Foreign Operations	Other*	Eliminations	Group
<i>(TL thousands)</i>							
Segment revenue.....	1,928,827	1,392,861	204,232	122,090	1,105,080	50,518	4,803,608
Segment expenses.....	(1,082,965)	(368,012)	(83,256)	(71,125)	(1,605,804)	55,236	(3,155,926)
Segment result.....	845,862	1,024,849	120,976	50,965	(500,724)	105,754	1,647,682

* Other segment mainly includes treasury management results, activities of business support units, insurance operations and other undistributed operations.

30 September 2010	Retail Banking	Corporate and Commercial Banking	Private Banking and Wealth Management	Foreign Operations	Other*	Eliminations	Group
<i>(TL thousands)</i>							
Segment revenue.....	2,051,955	990,375	254,005	132,920	1,480,610	(63,419)	4,846,446
Segment expenses.....	(806,894)	(393,895)	(77,214)	(34,219)	(1,697,922)	29,515	(2,980,629)
Segment result.....	1,245,061	596,480	176,791	98,701	(217,312)	(33,904)	1,865,817

* Other segment mainly includes treasury management results, activities of business support units, insurance operations and other undistributed operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the consolidated financial condition and results of operations of the Group covers the six month periods ended 30 June 2011 and 2010 and the financial years ended 31 December 2010, 2009 and 2008. Unless otherwise specified, the financial information presented in this discussion has been derived from the Group's Annual IFRS Financial Statements and Interim IFRS Financial Statements. This section should be read in conjunction with the Annual IFRS Financial Statements and the Interim IFRS Financial Statements, the notes thereto and the other financial information included in this Offering Memorandum (including the section entitled "Presentation of Financial and Other Information").

Certain information contained in the discussion and analysis set forth below and elsewhere in this Offering Memorandum includes "forward-looking statements". Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. See the section entitled "Forward-Looking Statements".

Introduction

Yapı ve Kredi Bankası A.Ş. is a full service bank with its headquarters in Istanbul, Turkey. According to BRSA statistics, as of 30 June 2011 the Bank was the fourth largest private bank in Turkey by total assets. It has 887 branches located in more than 70 cities and serves 6.1 million active customers in Turkey. It maintains leading positions in key segments and products, supported by its strong franchise, large network and leading brand. The Bank provides financial products and services including credit cards, retail banking, private banking, SME banking and corporate and commercial banking through its network of branches throughout Turkey. Internationally, the Group operates through subsidiaries in the Netherlands, Russia and Azerbaijan and maintains a foreign branch in Bahrain.

Recent Developments

Funding update

In January 2011, the Bank entered into its first general loan facility with the European Bank for Reconstruction and Development in the amount of EUR30 million, to be used by micro SMEs (as defined below). The loan has a maturity of five years, at an interest rate of EURIBOR+1.9%. The Bank has fully drawdown the facility on 5 August 2011.

On 16 August 2011, the Bank drew down a EUR10 million tranche under the Greater Anatolia Guarantee Facility from the European Investment Bank on 22 October 2010, to support SME lending in 43 cities in targeted regions in Anatolia. The loan has a maturity of five years, and this tranche has a fixed interest rate of 2.724% per annum. On 16 December 2011, the Bank drew down EUR25 million under the same Facility with a fixed rate of 2.812%.

On 19 August 2011, Yapı Kredi Diversified Payment Rights Finance Company Ltd. issued four additional tranches amounting to EUR130 million and U.S.\$225 million for the benefit of the Bank under the DPR programme, on a private placement basis with the involvement of four commercial banks and two supranationals. The transaction has a maturity of five years with a two year grace period.

On 22 September 2011, Yapı Kredi Diversified Payment Rights Finance Company Ltd. issued another EUR75 million notes for the benefit of the Bank through Series 2011-E Notes under the same DPR programme. The notes were privately placed with a supranational institution. The series has a final maturity of 12 years.

On 29 September 2011, the Bank obtained a syndication loan from 42 international banks, comprised of two tranches in the amount of U.S.\$285 million (TL453 million) and EUR687 million (TL1,578 million) with total cost of LIBOR+1.0% and EURIBOR+1.0%, respectively, which matures on 29 September 2012, under a dual tranche multi currency term loan facility agreement. This loan facility replaced the syndication loan that was signed in September 2010.

In October 2011, within the scope of the agreement signed between International Bank for Reconstruction and Development (IBRD) and the Industrial Development Bank of Turkey (TSKB), the Bank signed the Export Finance Intermediation Loan Agreement with TSKB in the amount of

USD34 million and EUR13 million, with a maturity of six years and approximately two and a half years grace period.

In November 2011, the Bank drew down a EUR50 million equivalent tranche (borrowed in U.S. dollars) under its EUR200 million Climate Change Facility signed with the European Investment Bank on December 2010, with a maturity of 15 years (5 years grace period), to support renewable energy and energy efficiency projects. This tranche will mature on 3 November 2026.

On 4 November 2011, the Bank borrowed EUR7.5 million under its facility with the Development Bank of Turkey under a loan agreement dated 27 July 2011, intended to finance the research and development activities, modernisation processes and investment capacities of SMEs. The loan has a maturity of five years, and total amount of EUR15 million.

On 22 December 2011, the Board of Directors of the Bank instructed the head office of the Bank to investigate the possibility and initiate the process of obtaining a subordinated loan facility up to a total amount of EUR500 million with a maturity of ten years, pre-payable by the Bank after five years. The Bank is considering the possibility of converting an existing loan received on 28 December 2011 from Unicredit Bank Austria, in the amount of EUR450 million, maturing on 28 September 2012.

Change in Reserve Requirement Ratios

In accordance with the “Amendment to the Communiqué regarding the reserve requirements” published in the Official Gazette dated 28 October 2011, the reserve requirement ratios for Turkish Lira liabilities have been set as stated below. The new ratios were valid from 28 October 2011:

Turkish Lira liabilities

- demand deposits, notice deposits and private current accounts: 11%;
- time deposit accounts with a term of up to one month (including one month): 11%;
- time deposit accounts with a term of up to three months (including three months): 11%;
- time deposit accounts with a term of up to six months (including six months): 8%;
- time deposit accounts with a term of up to one year: 6%;
- time deposit accounts and accumulating deposit accounts with a term of one year and over one year: 5%;
- liabilities, excluding deposit with a term of up to one year (including one year): 11%;
- liabilities, excluding deposit with a term of up to three years (including three years): 8%; and
- liabilities, excluding deposit with a term of over three years: 5%.

In accordance with the “Amendment to the Communiqué regarding the reserve requirements” published in the Official Gazette dated 6 October 2011, the reserve requirement ratios for foreign currency liabilities have been set as stated below. The new ratios were valid from 30 September 2011:

Foreign currency liabilities

- demand deposits, notice deposits, private current accounts, precious metal deposit accounts and time deposits accounts with a term of up to one month, up to three months, up to six months and up to one year: 11%;
- time deposits accounts, accumulating deposit accounts and precious metal deposit accounts with a term of one year and over one year: 9%;
- liabilities, excluding deposit with a term of up to one year (including one year): 11%;
- liabilities, excluding deposit with a term of up to three years (including three years): 9%; and
- liabilities, excluding deposit with a term of over three years: 6%.

In addition, with a recent “Amendment to the Communiqué regarding Reserve Requirements” published in the Official Gazette dated 12 September 2011, gold deposit accounts have been included in the coverage of the reserve requirements. In accordance with the recent amendments, banks are allowed to maintain (i) up to 40% of their Turkish Lira liabilities in U.S. Dollar and/or Euro, and up to 10% of their Turkish Lira liabilities in standard gold, and (ii) the total amount of reserve requirements maintained for the precious metal deposit accounts and up to 10% of foreign currency liabilities excluding precious metal deposit accounts in standard gold.

Significant Factors Affecting Results of Operations

Numerous factors affect the Group's results of operations, some of which are outside the Group's control. The following discussion identifies certain of those factors that are significant to the Group.

Turkish Economy

The majority of the Group's operations are in Turkey and its business and results of operations are affected by general economic conditions in Turkey. As of 31 December 2010, 95.5% of the Group's total assets were located in Turkey. Accordingly, the Bank's results of operations and financial condition have been and will continue to be significantly affected by Turkish political and economic factors, including the economic growth rate, the rate of inflation and fluctuations in exchange and interest rates. In addition, because the Bank is reliant on deposits from retail customers for a significant portion of its funding and generates a significant amount of its net income from credit cards issued to retail customers, the Bank's performance is affected by changes in wages, consumer spending and GDP growth generally. See *"Risk Factors – Risks Related to the Group's Business – The Group's business, results of operations, financial condition and prospects are affected by general economic conditions"* and *"Risk Factors – Risks Related to Turkey – Turkey's economy is subject to macroeconomic factors"*.

The economic contraction in Turkey in 2009 negatively affected lending growth and caused a decline in asset quality in the Turkish banking sector. In 2010, Turkey's economy experienced a considerable recovery with GDP growth increasing to 8.9%, stabilised interest rates of 6.5% (the Central Bank policy rate as of 31 December 2010) and a sustained low inflation rate of 6.4%. In this positive environment, loan and deposit growth in the Turkish banking sector (excluding participation banks) reached 34% and 21%, respectively, while the sector's NPL ratio reverted to pre crisis levels (3.7% in 2010, compared to 5.3% in 2009 and 3.5% in 2008). During this period the Bank also recorded strong performances in terms of growth and profitability by focusing on commercial effectiveness, cost control, efficiency and sustainability. In 2011, the Central Bank started implementing an unconventional monetary policy and regulatory changes, aimed at controlling the widening current account deficit (which increased to 8.2% of GDP as of 31 March 2011, compared to a deficit of 6.6% of GDP as of 31 December 2010) and discourage short-term capital inflows. Despite these restricting steps taken by the Central Bank, Turkey recorded strong growth for the first quarter of 2011, with a GDP growth rate of 11% according to Turkstat. In the second quarter of 2011, the increasing regulatory pressure initiated by the Government resulted in a further shift in market conditions. The policy measures implemented since the beginning of 2011 included increased reserve requirements, increased general provisioning requirements, higher risk-weighting for general purpose loans (other than mortgage and auto loans) and an unofficial limit of credit growth in 2011 of 25% (see *"Turkish Regulatory Environment"*). These measures, together with increased competition in the banking sector, have negatively impacted net interest margins across the Turkish banking sector, although overall loan growth rates were still strong at 17.9% on average for the first half of 2011 according to Turkstat (18.4% according to BRSA weekly sector data). The Bank responded to these policy measures by selectively focusing on higher yielding loan segments, including general purpose and SME loans in local currency and project finance loans in foreign currency, loan repricing actions, controlling deposit pricing, extending maturities for liabilities and further diversifying funding sources. Asset quality improved in 2011 with sector NPL ratio down to 2.9% as of 30 June 2011 from 3.7% as of 31 December 2010. In light of the policy measures implemented in the first half of 2011, as well as global market conditions (including market perceptions regarding the ability of certain EU member states to service their sovereign debt obligations, the downgrade of U.S. sovereign debt and the pessimism over growth rates in the U.S. and the EU generally), it is expected that economic activity in Turkey will remain slow for the remainder of 2011. Also, in response to these perceived weaknesses, at the beginning of August 2011 the Central Bank lowered its policy rate by a further 50 basis points to 5.75%, narrowed the interest rate corridor between policy rate and overnight lending rate in order to limit the volatility of short-term interest rates, and started generating foreign currency liquidity through daily foreign currency sale auctions, reducing foreign currency reserve requirement (by 50 basis points) as well as decreasing the Central Bank's foreign currency lending rate to banks. The interest rate corridor was later widened through the increase by the Central Bank of its overnight lending rate to 12.5% on 20 October 2011 as a result of the most recent loss of value in the Turkish Lira.

The following table presents selected macroeconomic data with respect to the Turkish economy as of and for the six months ended 30 June 2011 and as of and for the years ended 31 December 2010, 2009, 2008, 2007 and 2006:

	As of or for the six months ended 30 June ⁽¹⁾	As of or for the years ended 31 December				
	2011	2010	2009	2008	2007	2006
Nominal GDP at current prices (in millions of Turkish Lira).....	284,868 ⁽²⁾	1,105,101	953,974	950,534	843,178	758,391
Real GDP growth (%).....	11.0 ⁽³⁾	8.9	(4.7)	0.7	4.7	6.9
Deficit/surplus of consolidated budget (%) ⁽⁴⁾	(1.7)	(3.6)	(5.5)	(1.8)	(1.6)	(0.6)
Inflation (%).....	6.2	6.4	6.5	10.1	8.4	9.7
Central Bank reference overnight interest rate.....	6.2	6.5	6.5	15.0	15.8	17.5
Refinancing rate of the Central Bank (%).....	9.0	9.0	9.0	17.5	20	22.5
Nominal appreciation (depreciation) of the Turkish Lira against the U.S. dollar (%).....	2.7	3.1	2.3	(31.3)	17.5	(4.8)
Real effective exchange rate appreciation (depreciation) (%) ⁽⁵⁾	(10.6)	8.1	1.6	(12.5)	17.3	(7.5)
Total gross gold and international currency reserves (in millions of U.S. dollars).....	98,102	85,984	74,836	74,236	76,440	63,825

Sources: *TurkStat* for nominal GDP at current prices, real GDP growth, inflation. Turkish Ministry of Finance, General Directorate of Public Accounts, for deficit/surplus of consolidated budget and Central Bank for reference overnight interest rate, refinancing rate, nominal appreciation (depreciation) of the Turkish Lira against the U.S. dollar, real effective exchange rate and total gross gold and international currency reserves.

Notes:

- (1) Real GDP growth, inflation, nominal depreciation of the Turkish Lira against the U.S. dollar and real effective exchange rate are presented on a y/y basis
- (2) Nominal GDP at current prices represents only the first quarter of 2011
- (3) Real GDP growth represents the y/y growth as of 31 March 2011
- (4) Last 12 months deficit over last 12 months GDP
- (5) CPI based real effective exchange rate is used

Interest Rates

One of the primary factors affecting the Group's profitability is the level of and fluctuations in interest rates in Turkey, which in turn influence the return on its securities portfolio and its loan and deposit rates. The Turkish Central Bank reference overnight interest rate declined from 17.5% as of 31 December 2006 to 15.0% as of 31 December 2008 and further declined significantly in 2009, to 6.5% as of 31 December 2009. In May 2010, the Central Bank policy rate changed to the one week lending reference rate, which was 6.50% as of 31 December 2010 and 6.25% as of 30 June 2011. On 4 August 2011, the Central Bank reduced its policy rate by 50 basis points to 5.75% in response to concerns regarding EU sovereign debt levels and anticipated levels of global growth while at the same time increasing the overnight borrowing rate significantly from 1.5% to 5% to narrow the interest rate gap from the overnight lending rate of 9%. The overnight lending rate was later increased to 12.5% on 20 October 2011 in order to widen the interest corridor to protect mid-term inflation expectations in light of the Turkish Lira loss in value. Interest earned and paid on the Group's assets and

liabilities reflects, to a certain degree, inflation, expectations regarding inflation, shifts in short-term interest rates set by the Central Bank and movements in long-term real interest rates.

In general, because the Group's assets have a longer maturity and reprice more slowly than its liabilities, changes in short-term interest rates are generally reflected in the rates of interest paid by the Group on its liabilities before such changes can be reflected in the rates of interest earned by the Group on its assets. Therefore, when interest rates fall, as has occurred since 2008 in Turkey, the Group's interest margin is positively affected, but when interest rates increase, the Group's interest margin is generally negatively affected.

In the current stable and low interest rate environment which is leading to sustained compression of margins and intense competition, the Group is focusing on customer business, optimal allocation of loans in higher yielding segments, upward repricing, optimisation of deposit pricing, diversification of funding sources and service income generating segments.

The Group has generally been able to generate a substantial portion of its revenue from service income and fees which it views as sustainable, for example, as of 30 June 2011, 35% of the operating revenues of the Group consisted of net fees and commissions. A strong contributor to the Group's service income and fees is the credit card sector where the Group is a market leader with a 18.2% market share in the Turkish market by outstanding volume as of 30 June 2011 (according to BRSA financial data). In order to further enhance service income and fees, the Group has been focusing on new product launches, fee collection, introduction of fees in new areas and increasing fee generating products like insurance policies distributed by the Bank's wide branch network, cash management and trade finance.

Exchange Rates

A significant portion of the Group's assets and liabilities are denominated in foreign currencies, particularly in U.S. dollars and euros (42% of total assets and 48% of total liabilities as of 30 June 2011). While the Group monitors its net open position in foreign currencies and the Group is required to comply with foreign currency net open position limits set by the BRSA, the Group has maintained and will likely continue to maintain gaps between the balances of its foreign currency assets and liabilities. The limit imposed by the BRSA is defined as an amount plus/minus 20% of the total capital, which is basis for capital adequacy calculation. The Group's net foreign currency open position as of 30 June 2011 and as of 31 December 2010, 2009 and 2008 was as follows:

Foreign Currency						
	U.S.\$	EUR	Other	Total	TL	Total
	<i>(thousands)</i>					
As of 30 June 2011 ⁽¹⁾	(1,807,824)	383,687	255,019	(1,169,118)	12,482,396	11,313,278
As of 31 December 2010	(1,051,201)	936,085	158,705	43,589	14,907,346	14,950,935
As of 31 December 2009	136,869	166,933	178,586	482,388	12,701,018	13,183,406
As of 31 December 2008	(3,966)	225,293	164,884	386,211	7,048,560	7,434,771

(1) Foreign exchange purchase commitments with future value dates amounting to TL1,296,950 thousand booked under commitments are not included.

Because the Group translates such assets and liabilities and interest earned from and paid on those assets and liabilities into local currency (Turkish Lira), the Group's income statement is affected by changes in exchange rates. The overall effect of exchange rate movements on the Group's results of operations depends on the rate of depreciation or appreciation of the Turkish Lira against its principal trading and financing currencies. For the years ended 31 December 2010, 2009 and 2008 the Group recorded net foreign exchange gains of TL91,372 thousand, TL130,623 thousand and TL106,278 thousand, respectively. For the six months ended 30 June 2011, net foreign exchange gain was TL75,102 thousand. Although the TL/U.S. dollar exchange rate remained relatively stable over the first half of 2011, it has experienced increased volatility since 30 June 2011, increasing to TL1.8439 per dollar as of 30 November 2011 compared to TL1.5894 per dollar as of 30 June 2011. However, as the Group minimises its open foreign currency positions, the net balance sheet position of the Group is not significant, and thus exchange rates fluctuations generally do not have a significant impact on the Group.

Exchange rate movements also affect the Turkish Lira equivalent value of the Group's foreign currency-denominated assets and capital, which can affect capital adequacy either positively (for example, if the TL appreciates, then assets in foreign currencies convert into fewer TL in the calculations of capital adequacy ratios and thus increase the capital adequacy ratios) or negatively (for example, if the TL depreciates, then assets in foreign currency convert into more TL in the calculations of capital adequacy ratios and thus reduce the capital adequacy ratios).

Since February 2001, the Central Bank has adopted a floating exchange rate regime. Consequently, the monetary policy of the Central Bank does not include any commitment to the level of exchange rates. The Central Bank intervenes in the market via direct sales or purchases only when there is deemed excessive volatility in the market. See "*Risk Factors – Risks Related to Turkey – The value of the Turkish Lira fluctuates against other currencies*".

Securities Portfolio

The Group maintains a securities portfolio which includes primarily Turkish government debt securities, which are classified as "held to maturity". The Group's investment securities portfolio amounted to TL20,564,531 thousand as of 30 June 2011 and TL19,233,291 thousand as of 31 December 2010. Of this, TL12,251,274 thousand or 60% and TL12,974,944 thousand or 67%, was held to maturity as of 30 June 2011 and 31 December 2010, respectively, and TL7,757,096 thousand or 38% and TL5,881,756 thousand, or 31%, was available for sale as of 30 June 2011 and 31 December 2010, respectively. The Group also had a trading securities portfolio amounting to TL556,161 thousand as of 30 June 2011 and TL376,591 thousand as of 31 December 2010. Interest income derived from the Group's trading and investment securities amounted to TL723,413 thousand for the six months ended 30 June 2011 and TL1,231,836 thousand for the year ended 31 December 2010, accounting for 20% and 19% of total interest income for the respective periods. The Bank's relatively small trading securities portfolio helps to reduce its exposure to mark-to-market fluctuations.

Expansion of Branch Network

In July 2007, the Bank embarked upon a programme of significant expansion of its branch network. As part of this expansion programme, the Bank has opened 301 new branches since July 2007, increasing the total branch network by a total of 247 branches as of 30 June 2011 (including branch closures and branch mergers). The new branches opened since July 2007 made up approximately one-third of the total branch network. At the beginning of 2009, the branch expansion plan was put on temporary stand-by as the Bank adjusted its strategy in response to the global financial crisis, but openings were resumed in late 2009, with 11 new retail branches opened in the fourth quarter of 2009 and 34 new retail branches opened in 2010. In the first half of 2011, the Bank opened a further 19 new branches and intends to open a total of 50-60 new branches by the end of 2011.

Although newly opened branches are generally not immediately profitable, as the branches graduate they tend to experience a period of high growth, which may not be sustainable in the longer term. The financial performance of newly opened branches is monitored independently from that of the existing branch network and is consolidated with that of the existing branch network only once the newly opened branches reach a cumulative break-even threshold. On average it can take approximately 18-22 months for such branches to reach this threshold. As of 30 June 2011, 174 out of the 301 newly opened branches had reached this threshold and were therefore consolidated with the existing branch network. Accordingly, the Bank is currently monitoring the financial performance of the remaining 127 new branches under the newly opened branches category.

As of 30 June 2011, the Bank has the fifth largest branch network in Turkey with 887 branches and a 9.1% market share by number of branches.

Taxation

Turkish tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the Group's IFRS Financial Statements, have been calculated on a separate-entity basis.

Under the Corporate Tax Law 5520, the applicable corporate tax rate has been 20% since 2006. Corporate tax is payable at a rate of 20% on the corporate tax base of the company after adjusting for certain disallowable expenses, exempt income, investment allowance and other additions and deductions.

The deferred income tax asset and liability represent the tax effect of temporary differences arising due to the different treatment of certain items of income and expenses included in the financial

statements compared to the local tax return in accordance with the applicable tax law plus any available tax loss carried forward from previous years.

For all domestic subsidiaries and the Bank, deferred income taxes are calculated on temporary differences that are expected to be realised or settled based on taxable income under the liability method using a principal tax rate of 20% for the six months ended 30 June 2011 and each of the years ended 2010 and 2009.

For foreign subsidiaries deferred income taxes calculated on all temporary differences under the liability method using the principal tax rates at 30 June 2011 and 31 December 2010 and 2009 which were as follows:

	Tax rate (%)		
	2011 ⁽¹⁾	2010	2009
		(%)	
Country of incorporation			
Russia	20.00	20.00	20.00
Netherlands.....	25.50	25.50	25.50
Azerbaijan.....	20.00	20.00	20.00

(1) Six months period ended 30 June 2011.

The Group's taxation charge for the six month period ended 30 June 2011 was TL264,595 thousand compared to TL295,610 thousand for the six months ended 30 June 2010, and for the year ended 31 December 2010 was TL563,151 thousand compared to TL305,946 thousand in 2009 and TL316,416 thousand in 2008. The effective tax rate of the Group was 18% for the period ended 30 June 2011, 20% for the year ended 31 December 2010, 16% for the year ended 31 December 2009 and 19% for the year ended 31 December 2008. As of 30 June 2011, there was no change in the foreign tax rates as set out above compared to 31 December 2010.

Analysis of Results of Operations for the six month periods ended 30 June 2011 and 2010

The following discussion of the Group's results of operations for the six month periods ended 30 June 2011 and 2010 and the Group's financial condition as of 30 June 2011 is based on information which has been extracted without material adjustment from the Interim IFRS Financial Statements. See "Presentation of Financial and Other Information".

	For the six months ended 30 June			Change
	2011	2011	2010	2011/2010
	(U.S.\$, thousands) ⁽¹⁾	(TL, thousands)		(% change)
Income Statement Data				
Interest income.....	2,379,788	3,629,177	3,226,469	12
Interest expense.....	(1,392,669)	(2,123,820)	(1,548,465)	37
Net interest income.....	987,119	1,505,357	1,678,004	(10)
Net fee and commission income.....	631,874	963,608	896,537	7
Foreign exchange gains, net.....	49,247	75,102	38,509	95
Net trading, hedging and fair value income/ (loss).....	50,409	76,874	(43,874)	—
Gains (losses) from investment securities, net ..	6,143	9,368	39,822	(76)
Insurance technical income, net.....	41,100	62,677	43,791	43
Other operating income.....	35,844	54,662	116,745	(53)
Operating income.....	1,801,736	2,747,648	2,769,534	(1)
Impairment (losses)/reversals on loans, investment securities and credit related commitments, net.....	1,442	2,199	(39,576)	—
Provision for retirement benefit obligations	(10,755)	(16,401)	(12,745)	29
Other provisions.....	(34,827)	(53,112)	(69,411)	(23)
Other operating expenses.....	(802,617)	(1,223,991)	(1,175,727)	4
Operating profit.....	954,979	1,456,343	1,472,075	(1)
Share of profit of associates and joint ventures accounted for using the equity method	5,183	7,904	2,593	205
Profit before income tax.....	960,162	1,464,247	1,474,668	(1)
Income tax expense.....	(173,505)	(264,595)	(295,610)	(10)
Profit for the year	786,657	1,199,652	1,179,058	2

Note:

- (1) For the convenience of the reader, these figures have been translated into U.S. dollars at the rate of TL1.5250=U.S.\$1.00, which corresponds with average of the Bank's Published Exchange Rate for the six month period ended 30 June 2011. Such translation should not be construed as a representation that the TL amounts have been converted into U.S. dollars pursuant to the requirements of IFRS.

Interest Income

The Group earns interest income from loans to banks and customers, through trading and investing in securities, as well as from derivatives, financial leases, reserve deposits and other sources. The most significant contributors to total interest income are the Bank's loans and advances to customers. The Group's interest income is comprised primarily of interest on loans, which accounted for 72% of the Group's total interest income for the period ended 30 June 2011. Other substantial components are interest on marketable securities and held to maturity investments. The Group's interest income increased by TL402,708 thousand, or 12% to TL3,629,177 thousand (U.S.\$2,379,788 thousand) for the six month period ended 30 June 2011, compared to TL3,226,469 thousand for the six month period ended 30 June 2010. The average volume of the Bank's loans increased in the six month period ended 30 June 2011 by 36% to TL62,675,105 thousand from TL46,094,006 thousand for the six months ended 30 June 2010, as a result of volume growth in general purpose loans, commercial instalment loans and project finance loans. The increase in interest income resulted primarily from this increase in the average volume of the Bank's loans.

Interest Expense

The Group's interest expense increased by TL575,355 thousand, or 37% to TL2,123,820 thousand (U.S.\$1,392,669 thousand) for the six month period ended 30 June 2011, from TL1,548,465 thousand for the six month period ended 30 June 2010. This increase was primarily a result of increased funding costs as a result of the changes in liquidity and reserve requirements set by the Turkish Central Bank. In addition, the average volume of the Bank's deposits increased by 23.3% compared to the six month period ended 30 June 2010 while the cost of deposits increased compared to the same period in 2010.

Net interest income

The Group's net interest income is the difference between the interest income that it earns on its interest earning assets and the interest expense that it pays on its interest bearing liabilities. Net interest income is the principal area of income for the Group and thus the net interest margin and the volume of such assets and liabilities tend to have the most significant impact on the Group's results of operations. As a result of the above, net interest income for the six month period ended 30 June 2011 decreased by TL172,647 thousand, or 10% to TL1,505,357 thousand from TL1,678,004 thousand for the six month period ending 30 June 2010. The Bank's net interest margin for the six month period ended 30 June 2011 was 3.2%, compared with 4.7% in the second half of 2010 and an average of 4.3% in 2010 due to increased competition and significant regulatory changes within the Turkish banking sector such as increased reserve requirements.

In the first half of 2011, due to continued competition and liquidity pressure, the Bank recorded increases in deposit costs, especially in foreign currency deposits. At the same time, due to early repricing measures, the Bank was able to sustain and increase loan yields, in part mitigating the deterioration in net interest margin.

Net Fees and Commission Income

The second largest contribution to the Group's total operating income is its net fee and commission income. The Group earns fee and commission income on both capital-intensive products (such as origination fees on cash loans and fees for credit cards, letters of credit and guarantees) and capital-free products (such as investment advice and brokerage fees in respect of trading). The Group expects that the relative contribution of fee and commission income to the Group's overall operating income will increase over time, particularly with the Group's focus on growing this element of the business. The primary components of the Bank's net fee and commission income are credit card fees, lending related fees, and banking services which in the six month period ended 30 June 2011, amounted to more than three quarters of the Bank's fee and commission income. The Group's net fees and commission income increased by TL67,071 thousand, or 7% to TL963,608 thousand (U.S.\$631,874 thousand) for the six month period ended 30 June 2011, from TL896,537 thousand for the six month period ended 30 June 2010. The increase in net fee and commission income was primarily a result of loan volume growth, repricing of certain consumer loans fees, increased contribution from new product bundles and better performance of credit card fees. The Group's total outstanding balance of credit card loans was TL9,216,570 as of 30 June 2011, compared to TL8,492,296 as of 31 December 2010, an increase of 8.5%.

Trading Gain

The Group recorded a trading gain comprising the aggregate of net foreign exchange gains, net trading, hedging and fair value income/(loss) and net gains/(losses) from investment securities, in the Interim IFRS Financial Statements of TL161,344 thousand (U.S.\$105,799 thousand) for the six month period ended 30 June 2011, compared to a trading gain of TL34,457 thousand for the six month period ended 30 June 2010. The main reason for the increase in the period ended 30 June 2011 was income recorded from the mark-to-market effect of interest rate swaps, mainly driven by changes in long-term interest rates.

Operating Income

Operating income, comprising the Group's net interest income, net fee and commission income, insurance technical income and other income amounted to TL2,747,648 thousand for the six month period ended 30 June 2011, a decrease of less than 1% compared to operating income of TL2,769,534 thousand for the six month period ended 30 June 2010.

Provision for Impairment of Loans and other Receivables

Provisions for the six month period ending 30 June 2011 resulted in a gain of TL2,199 thousand, reverting from a loss of TL39,576 thousand for the six month period ended 30 June 2010.

The Bank's ratio of non-performing loans to total loans improved to 3.0% as of 30 June 2011, compared with 3.6% as of 31 December 2010.

The reversal in provisions resulted primarily from the release of TL106,526 thousand of impairment provisions as a result of the reassessment of the parameters for different segments, taking the historical loss experience into consideration.

Other Operating Expenses

Other operating expenses, which include staff costs, depreciation and amortisation and other operating expenses, increased by TL48,264 thousand (U.S.\$31,649 thousand), or 4%, to TL1,223,991 thousand in the period ended 30 June 2011, from TL1,175,727 thousand for the six month period ended 30 June 2010.

The most significant component of this increase was salary increases due to inflation and an increase in the number of employees. Other factors contributing to the increase include depreciation and amortisation expenses as well as branch openings during the period.

The cost to income ratio of the Group was 44.4% and 42.4% for the six month periods ended 30 June 2011 and 2010, respectively, and the operating costs to average total assets ratio was 2.5% and 3.1% for the six month periods ended 30 June 2011 and 2010, respectively. The Group implemented tight cost management and efficiency strategies, including back office centralisation, head count rationalisation and credit process review, as well as the migration of transactions and sales activity to non-branch channels, all of which had a positive impact on these ratios, set off to a certain extent by pressure on revenues.

Net Profit

As a result of the factors outlined above, as well as a decrease of TL31,015 thousand, or 10%, in the Group's income tax expense, the Group's net profit increased by TL20,594 thousand (U.S.\$13,504 thousand), or close to 2%, to TL1,199,652 thousand for the six month period ended 30 June 2011, from TL1,179,058 thousand for the six month period ended 30 June 2010.

Analysis of Results of Operations for the years ended 31 December 2010 and 2009

The following discussion of the Group's results of operations for the years ended 31 December 2010 and 2009 have been extracted without material adjustment from the Annual IFRS Financial Statements. This information should be read in conjunction with the Annual IFRS Financial Statements and the notes thereto. See "*Presentation of Financial and Other Information*".

	For the year ended 31 December			Change
	2010	2010	2009	2010/2009
	(U.S.\$, thousands) ⁽¹⁾	(TL, thousands)		(%)
Income Statement Data:				
Interest income	4,526,948	6,616,135	7,635,542	(13)
Interest expense	(2,281,011)	(3,333,697)	(3,801,028)	(12)
Net interest income.....	2,245,938	3,282,438	3,834,514	(14)
Net fee and commission income.....	1,279,475	1,869,953	1,724,696	8
Foreign exchange gains, net	62,519	91,372	130,623	(30)
Net trading, hedging and fair value income/(loss)	(17,419)	(25,458)	118,678	—
Gains (losses) from investment securities, net.....	66,475	97,153	33,225	192
Insurance technical income, net	79,483	116,165	22,532	416
Other operating income.....	178,701	261,172	136,351	92
Operating income	3,895,173	5,692,795	6,000,619	(5)
Impairment (losses)/reversals on loans and credit related commitments, net	(268,991)	(393,131)	(1,616,526)	(76)
Provision for retirement benefit obligations.....	4,323	6,318	(110,302)	(106)
Other provisions	(129,307)	(188,982)	(185,462)	2
Other operating expenses.....	(1,590,449)	(2,324,441)	(2,189,061)	6
Operating profit	1,910,749	2,792,559	1,899,268	47
Share of profit of associates and joint ventures accounted for using the equity method	4,328	6,326	(1,254)	—
Profit before income tax	1,915,077	2,798,885	1,898,014	47
Income tax expense	(385,324)	(563,151)	(305,946)	84
Profit for the year	1,529,753	2,235,734	1,592,068	40

Note:

- (1) For the convenience of the reader, these figures have been translated into U.S. dollars at the rate of TL1.4615 = U.S.\$1.00, which corresponds with the average of the Bank's Published Exchange Rate for the year ended 31 December 2010. Such translation should not be construed as a representation that the TL amounts have been converted into U.S. dollars pursuant to the requirements of IFRS.

Interest Income

The following table sets out the principal components of the Group's interest income for the years ended 31 December 2010 and 2009:

	For the year ended 31 December			
	2010	% of total	2009	% of total
	<i>(TL, thousands, except %)</i>			
Loans and advances:				
– to banks.....	74,359	1	66,803	1
– to customers	4,665,227	71	5,283,023	69
Trading and investment securities	1,231,836	19	1,422,673	19
Derivative financial instruments	330,742	5	396,903	5
Financial leases	199,400	3	254,671	3
Reserve deposits	58,431	1	114,668	2
Other.....	56,140	1	96,801	1
Total interest income.....	6,616,135	100	7,635,542	100

The Group's interest income decreased by TL1,019,407 thousand, or 13%, to TL6,616,135 thousand for the year ended 31 December 2010, compared to TL7,635,542 thousand for the year ended 31 December 2009. Interest income from loans and advances to customers decreased to TL4,665,227 thousand and constituted 71% of total interest income for the year ended 31 December 2010, compared to TL5,283,023 thousand for the year ended 31 December 2009, when it constituted 69% of total interest income.

The most significant factor affecting the Bank's interest income and interest expense for the year ended 31 December 2010, was the decrease in interest rates (which decreased from 17.81% as of 31 December 2009 to 12.78% as of 31 December 2010) due to the general economic environment, which was offset to a certain extent by the increase in the average size of the loan portfolio throughout 2010, which was TL49,970,876 thousand in 2010 compared to TL42,303,790 thousand in 2009.

The decrease in the Group's interest income for the year ended 31 December 2010 compared to the year ended 31 December 2009 was primarily attributable to decreases in average interest rates on loans during the year 2010, as a result of competition and the low interest rate environment.

The Bank's trading and investment securities portfolio is largely held to maturity. The average balance for the year ended 31 December 2010 increased 14% from the year ended 31 December 2009. The average interest rate on the trading and investment securities portfolio declined, resulting in lower interest income, mainly due to decreasing interest rates on Turkish Lira floating rate held to maturity securities, which decreased to 10.05% in 2010 from 11.49% in 2009 on average.

The following table sets out the weighted average interest rates on financial instruments by major currency outstanding as of 31 December 2010 and 2009:

	As of 31 December					
	2010			2009		
	U.S.\$	€	TL	U.S.\$	€	TL
	<i>(%)</i>					
Cash and balances with central banks.....	—	—	—	—	—	3.78
Loans and advances to banks.....	2.09	0.36	8.05	1.80	1.06	7.33
Financial assets held for trading...	2.86	7.05	8.11	5.81	7.34	8.59
Investment securities Available for sale	6.98	5.94	7.85	7.43	7.18	11.73
Held to maturity	6.76	5.69	10.05	6.80	5.54	11.49
Loans and advances to customers	4.63	5.13	12.78	5.29	6.14	17.81

The overall interest rates on the Bank's Turkish Lira-denominated interest earning assets declined significantly as of 31 December 2010 as compared with 31 December 2009. Although there were also general declines in the interest rates payable on the Bank's foreign currency interest earning assets, these were less significant. Loans in foreign currencies totalled TL24,187,069 thousand (U.S.\$16,046,619 thousand) as of 31 December 2010, accounting for 42% of the Group's loan portfolio, compared to TL18,067,562 thousand or as of 31 December 2009 as their percentage contribution to the Group's loan portfolio remained stable. As of late 2010, the Central Bank no longer pays interest on reserve deposits.

Interest Expense

The following table sets out certain information relating to interest expense for the years ended 31 December 2010 and 2009:

	For the year ended 31 December	
	2010	2009
	<i>(TL, thousands)</i>	
Customer deposits.....	(2,287,023)	(2,866,166)
Funds borrowed.....	(375,991)	(477,008)
Derivative financial instruments	(523,565)	(319,171)
Securities issued	(24,674)	(44,863)
Repurchase agreement	(49,775)	(62,832)
Deposits from banks.....	(43,738)	(28,452)
Other	(28,931)	(2,536)
Total interest expense.....	(3,333,697)	(3,801,028)

Interest expenses for the year ended 31 December 2010 decreased by TL467,331 thousand, or 12%, to TL3,333,697 thousand (U.S.\$2,281,011 thousand) from TL3,801,028 thousand for the year ended 31 December 2009, due to the decrease in interest rates as a result of the general economic environment.

The following table sets out the weighted average interest rates for financial instruments by major currency as of 31 December 2010 and 2009:

	As of 31 December					
	2010			2009		
	U.S.\$	€	TL	U.S.\$	€	TL
	<i>(%)</i>					
Deposits from banks	1.36	1.14	7.29	1.68	1.16	2.98
Customer deposits	2.80	2.57	8.70	1.94	1.90	7.87
Debt securities in issue.....	1.33	1.77	—	1.29	1.76	—
Financial liabilities designated at fair value	—	—	—	—	—	—
Funds borrowed	2.50	2.48	9.15	2.30	2.77	13.29

Changes in interest rates on interest bearing liabilities are the most significant factor on the Group's interest expense. Deposits make up the largest part of the Group's interest bearing liabilities representing 87.4% and 89.6% as of 31 December 2010 and 2009, respectively and as a result changes in interest rates on deposits are most likely to have a significant effect on the Group's interest expense. Funds borrowed represented 18.9% and 17.3%, respectively.

The interest rates on Turkish Lira-denominated deposits from banks and customers increased substantially from 2.98% and 7.87%, respectively, as of 31 December 2009 to 7.29% and 8.70%, respectively, as of 31 December 2010 despite a stable/decreasing base interest rate environment mainly due to higher competition in the market and increased liquidity and reserve requirements instituted by the Central Bank. Customer deposits in foreign currencies are primarily denominated in U.S. dollars

and, to a lesser extent, in euro. Foreign currency term deposit balances accounted for 38% and 43% of total term deposits balances as of 31 December 2010 and 2009, respectively.

The following table sets out information relating to deposits from customers as of 31 December 2010 and 2009:

	As of 31 December 2010			As of 31 December 2009		
	Demand	Term	Total	Demand	Term	Total
	<i>(TL, thousands)</i>					
Foreign currency deposits:						
Saving deposits	1,967,201	7,541,958	9,509,159	2,076,935	8,229,426	10,306,361
Commercial deposits	2,785,429	9,405,581	12,191,010	2,208,694	6,723,689	8,932,383
Public sector deposits	—	—	—	—	—	—
	<u>4,752,630</u>	<u>16,947,539</u>	<u>21,700,169</u>	<u>4,285,629</u>	<u>14,953,115</u>	<u>19,238,744</u>
Turkish Lira deposits:						
Saving deposits	1,812,758	15,843,209	17,655,967	1,440,267	13,946,703	15,386,970
Commercial deposits	2,439,527	11,230,187	13,669,714	1,747,739	5,344,243	7,091,982
Funds deposited under repurchase agreements	—	67,825	67,825	—	130,100	130,100
Public sector deposits	320,896	76,379	397,275	278,166	55,424	333,590
	<u>4,573,181</u>	<u>27,217,600</u>	<u>31,790,781</u>	<u>3,466,172</u>	<u>19,476,470</u>	<u>22,942,642</u>
	<u>9,325,811</u>	<u>44,165,139</u>	<u>53,490,950</u>	<u>7,751,801</u>	<u>34,429,585</u>	<u>42,181,386</u>
Current	9,325,811	43,767,691	53,093,502	7,751,801	33,739,320	41,491,121
Non-current	—	397,448	397,448	—	690,265	690,265

As of 31 December 2010, approximately 45% of the Group's deposits, or TL26,097,421 thousand (U.S.\$17,314,019 thousand), were denominated in foreign currencies, with the remaining 55%, or TL32,328,999 thousand (U.S.\$21,448,284 thousand), denominated in Turkish Lira, including interest expense accrual. In 2010, the Bank experienced a slight shift in the balance of deposits from foreign currency deposits towards Turkish Lira deposits as a result of the Bank's focus on Turkish Lira lending.

Historically, interest expenses on deposits from banks and other borrowed funds have represented a relatively small percentage of the Group's total interest expense because the Group has not relied upon these as a principal source of its funding, although the Group is increasing this component to access longer term funding to address the maturity gap typical of Turkish banks.

Net Interest Income and Net Interest Margin

Declines in short-term interest rates are generally reflected in the rates of interest paid by the Group on its liabilities before such changes are reflected in the rates of interest earned by the Group on its assets. Therefore, when short-term interest rates fall, the Group's interest margin is positively affected, notwithstanding the corresponding declines in interest income.

The rates of interest paid by the Group on its liabilities tend to decline more quickly than the rates of interest earned by the Group on its assets. In 2010, as a result of the interest rate environment having stabilised at lower levels compared to 2009 (with the Group's loan portfolio having significantly repriced to lower prevailing rates) and higher competition, the Bank recorded a decrease in net interest margin, despite strong volume growth. During 2009, the Group experienced significant declines in the average cost of its interest bearing liabilities, which resulted from changes in the market environment, and also from the Bank's focus on eliminating its highest cost customer deposits.

As a result of the foregoing factors, the Group's net interest income amounted to TL3,282,438 thousand (U.S.\$2,245,938 thousand) for the year ended 31 December 2010, compared to TL3,834,514 thousand for the year ended 31 December 2009. The Group's net interest margin declined to 4.3% for the year ended 31 December 2010, compared with 5.8% for the year ended 31 December 2009.

Net Fee and Commission Income

The following table sets out certain information relating to fee and commission income for the years ended 31 December 2010 and 2009:

	For the year ended 31 December	
	2010	2009
	<i>(TL, thousands)</i>	
Fee and commission income on:		
Credit/debit cards.....	755,687	764,711
Banking services.....	704,264	587,524
Assets under management	272,588	251,363
Loans		
Credit related commitments	230,171	213,660
Loans and advances.....	93,015	115,876
Brokerage.....	59,123	55,858
Insurance products.....	36,926	37,216
Factoring.....	14,154	8,947
Other	52,504	41,064
Total fee and commission income	2,218,432	2,076,219

Fee and commission income increased by TL142,213 thousand, or 7%, to TL2,218,432 thousand for the year ended 31 December 2010, from TL2,076,219 thousand for the year ended 31 December 2009. The increase was due primarily to an increase in fees and commissions on banking services, which increased by TL116,740 thousand, or 20%, to TL704,264 thousand in 2010 from TL587,524 thousand in 2009 as a result of the larger volume of such services given strong market conditions in Turkey in 2010, as well as new product bundle launches and the Bank's focus on fee generating products (such as cash management and trade finance).

In 2010, the Bank experienced a slight decline in fee and commission income from credit cards (despite higher transaction volume and new card issuances), due to the low interest rate environment, as the interchange fees are based in part on overnight interest rates. The decline was partially mitigated towards the end of the year.

The following table sets out certain information relating to fee and commission expense for the years ended 31 December 2010 and 2009:

	For the year ended 31 December	
	2010	2009
	<i>(TL, thousands)</i>	
Fee and commission expense from:		
Credit/debit cards.....	(210,192)	(201,379)
Insurance products.....	(61,324)	(55,039)
Brokerage.....	(4,447)	(4,798)
Factoring.....	(2,579)	(2,619)
Other borrowed funds	(793)	(1,258)
Other	(69,144)	(86,430)
Total fee and commission expense	(348,479)	(351,523)
Net fee and commission income	1,869,953	1,724,696

Fee and commission expense decreased by TL3,044 thousand, or less than 1%, to TL348,479 thousand for the year ended 31 December 2010, from TL351,523 thousand for the year ended 31 December 2009. This decrease was primarily due to a decrease in other fees and commission

expenses of TL17,286 thousand, or 20%, to TL69,144 thousand for the year ended 31 December 2010 from TL86,430 thousand for the year ended 31 December 2009.

Other fee and commission expenses consists mainly of agency and dealing room commissions, collection and payment services (electronic fund transfer charges), commissions paid for options and credit reference system inquiry commissions.

Also in line with the decrease in fees and commission expense, net fees and commission income increased by TL145,257, or 8% to TL1,869,953 for the year ended 31 December 2010 from TL1,724,696 for the year ended 31 December 2009.

Trading Gain

The Group recorded a trading gain (comprising the aggregate of foreign exchange gains, net, net trading, hedging and fair value income/(loss) and gains/(losses) from investment securities, net) of TL163,067 thousand (U.S.\$111,575 thousand) for the year ended 31 December 2010, compared to a trading gain of TL282,526 thousand for the year ended 31 December 2009.

Foreign exchange gains decreased by TL39,251 thousand (U.S.\$26,857 thousand), or 30%, to TL91,372 thousand in the period ended 31 December 2010, from TL130,623 thousand for the period ended 31 December 2009. This decrease was primarily a result of more stable exchange rates in 2010 compared to 2009.

Net trading, hedging and fair value income suffered a reversal from an income of TL118,678 thousand for the year ended 31 December 2009 to a charge of TL25,458 thousand (U.S.\$17,419 thousand) for the year ended 31 December 2010. This reversal was primarily due to the loss generated from interest rate-linked instruments as a result of decreasing interest rates during 2010.

The Group recorded gains from investment securities of TL97,153 thousand (U.S.\$66,475 thousand) for the year ended 31 December 2010, compared to TL33,225 thousand for the year ended 31 December 2009 or an increase of TL63,928 thousand or 292%. These gains were primarily the result of the disposal of available for sale and held to maturity securities.

Other Operating Income

The Group's other operating income increased by TL124,821 thousand, or 92% to TL261,172 thousand (U.S.\$178,701 thousand) for the year ended 31 December 2010, from TL136,351 thousand for the year ended 31 December 2009. This increase was primarily the result of gains on sale of fixed assets and non-performing loans.

Operating Income

As a result of the foregoing factors, operating income decreased by TL307,824 thousand, or 5%, to TL5,692,795 thousand (U.S.\$3,895,173 thousand) for the year ended 31 December 2010 from TL6,000,619 thousand for the year ended 31 December 2009.

Impairment losses on loans and credit related commitments (net)

Impairment losses on loans and credit related commitments (net) decreased by TL1,223,395 thousand, or 76%, to TL393,131 thousand (U.S.\$268,991 thousand) for the year ended 31 December 2010, from TL1,616,526 thousand for the year ended 31 December 2009 due to lower non-performing loans inflows, improved collections, sale of non-performing loans and credit infrastructure improvements.

In 2010, the Bank's ratio of non-performing loans to total loans decreased to 3.6% as of 31 December 2010, compared with 6.3% as of 31 December 2009 and 4.1% as of 31 December 2008. The Bank's inflows of non-performing loans began to decline during the third quarter of 2009 as market conditions improved and continued to decline in 2010. The Bank's ratio of collections to non-performing loan inflows improved substantially in 2010.

As a result of macroeconomic deterioration and the Bank's retail-oriented product mix, the Bank began to experience deteriorating asset quality beginning in the fourth quarter of 2008, which continued at an increased pace in the first half of 2009. In response, the Bank undertook several projects to improve its credit systems and collection infrastructure and also undertook a series of proactive restructuring measures beginning in April 2009 with respect to its SME, credit card and commercial loan portfolios, which were intended to control asset quality deterioration. One of the key features of these initiatives is the proactive restructuring of watch loans, in order to prevent them from deteriorating to the point of becoming non-performing loans. By 31 December 2010, the Bank had restructured loans in an aggregate amount of approximately TL101,376 thousand, corresponding

to approximately 0.2% of the Bank's aggregate loan portfolio. Of the aggregate amount, approximately 76.1% were credit card and individual loans, approximately 0.5% were SME loans and approximately 23.4% were commercial loans.

Provision for retirement benefit obligations

Provisions for retirement benefit obligations reverted to a surplus of TL6,318 thousand (U.S.\$4,323 thousand) for the year ended 31 December 2010, from an expense of TL110,302 thousand for the year ended 31 December 2009. This surplus was primarily the result of the reversal of provisions for post employment benefits transferable to the Social Security Institution (the "Fund") following a revised actuarial assessment in 2010.

Other Operating Expenses

Other operating expenses increased by TL135,380 thousand, or 6%, to TL2,324,441 thousand (U.S.\$1,590,449 thousand) for the year ended 31 December 2010 from TL2,189,061 thousand for the year ended 31 December 2009. Other operating expense is primarily composed of general and administrative expenses, which made up 43% and 39% of the total operating expenses for the years ended 31 December 2010 and 2009, respectively. This increase was mainly due to increases in salaries and sundry taxes primarily due to the increase in the number of employees and the expansion of the branch network.

The cost to income ratio of the Group was 40.8% and 36.5% for the years ended 31 December 2010 and 2009, respectively, and the operating costs to average total assets ratio was 2.9% and 3.1% for the years ended 31 December 2010 and 2009, respectively. The solid evolution of these ratios was due to the Group's focus on cost management and efficiency strategies, including back-office centralisation, head count rationalisation and credit process review, as well as the migration of transactions and sales activity to alternative distribution channels.

Operating Profit

Operating profit, comprised of operating income less other expenses, increased by TL893,291 thousand, or 47%, to TL2,792,559 thousand (U.S.\$1,910,749 thousand) for the year ended 31 December 2010 from TL1,899,268 thousand for the year ended 31 December 2009.

Share of Profit of Associates and Joint Ventures

Share of profit from associates and joint ventures comprises the Group's 30.67% interest in Banque de Commerce and 30.45% interest in Yapı Kredi Koray Gayrimenkul Yatırım Ortaklığı A.Ş. The Group's share of profits from associates and joint ventures reverted to a profit of TL6,326 thousand (U.S.\$4,328 thousand) for the year ended 31 December 2010 from a loss of TL1,254 thousand for the year ended 31 December 2009.

Profit before Income Tax

Profit before income tax, comprising operating profit and share of profit of associates and joint ventures, increased by TL900,871 thousand, or 47%, to TL2,798,885 thousand (U.S.\$1,915,077 thousand) for the year ended 31 December 2010 from TL1,898,014 thousand for the year ended 31 December 2009.

Income Tax Expense

Income tax expense increased by TL257,205 thousand, or 84%, to TL563,151 thousand (U.S.\$385,324 thousand) for the year ended 31 December 2010 from TL305,946 thousand in 2009.

Under the Corporate Tax Law 5520, the applicable corporate tax rate is 20% for 2009 and 2008. Corporate tax is payable at a rate of 20% over the corporate tax base of the company after adjusting for certain disallowable expenses, exempt income, investment allowance and other additions and deductions. The annual corporate income tax return is required to be filed until 25th day of the fourth month following the close of the related fiscal year. Payments will be carried out in single instalment until the end of the month in which the tax return is to be filed.

The increase in income tax expense from 2009 to 2010 was mainly due to a one-off deferred tax income recorded by the Group in 2009 in relation to utilisation of investments incentives. Without giving effect to this one-off payment, the effective tax rates for both 2009 and 2010 were approximately 20%.

Profit for the Year

The Group's profit for the year increased by TL643,666 thousand, or 40%, to TL2,235,734 thousand (U.S.\$1,529,753 thousand) for the year ended 31 December 2010 from TL1,592,068 thousand for the year ended 31 December 2009.

Average shareholders' equity excluding minority interest is calculated by adding the quarterly consolidated BRSA shareholders' equity amounts excluding minority interest and current year's profit from the beginning of the period (including last year) until the end of the period and dividing the total by number of periods.

The Group's return on average equity excluding minority interest was 26% and 23% for the years ended 31 December 2010 and 2009, respectively.

Analysis of Results of Operations for the years ended 31 December 2009 and 2008

The following discussion of the Group's results of operations for the years ended 31 December 2009 and 2008 have been extracted without material adjustment from the Annual IFRS Financial Statements. This information should be read in conjunction with the Annual IFRS Financial Statements and the notes thereto. See "Presentation of Financial and Other Information".

	For the year ended 31 December			Change
	2009	2009	2008	2009/2008
	(U.S.\$, thousands) ⁽¹⁾	(TL, thousands)		(%)
Income Statement Data:				
Interest income.....	5,066,380	7,635,542	7,736,732	(1)
Interest expense.....	(2,522,081)	(3,801,028)	(5,067,988)	(25)
Net interest income	2,544,300	3,834,514	2,668,744	44
Net fee and commission income	1,144,381	1,724,696	1,505,260	15
Foreign exchange gains, net.....	86,672	130,623	106,278	23
Net trading, hedging and fair value income/ (loss).....	78,746	118,678	38,198	211
Gains/(losses) from investment securities, net...	22,046	33,225	(35,574)	—
Insurance technical income, net	14,949	22,532	80,225	(72)
Other operating income	90,472	136,351	194,383	(30)
Operating income	3,981,567	6,000,619	4,557,514	32
Impairment losses on loans and credit related commitments, net.....	(1,072,607)	(1,616,526)	(423,218)	282
Provision for retirement benefit obligations	(73,188)	(110,302)	(83,674)	32
Other provisions.....	(123,059)	(185,462)	(253,158)	(27)
Other operating expenses	(1,452,499)	(2,189,061)	(2,112,246)	4
Operating profit.....	1,260,214	1,899,268	1,685,218	13
Share of profit of associates and joint ventures accounted for using the equity method	(832)	(1,254)	1,166	—
Profit before income tax.....	1,259,381	1,898,014	1,686,384	13
Income tax expense	(203,003)	(305,946)	(316,416)	(3)
Profit for the year	1,056,378	1,592,068	1,369,968	16

Note:

- (1) For the convenience of the reader, these figures have been translated into U.S. dollars at the rate of TL1.5071=U.S.\$1.00, which corresponds with average of the Bank's Published Exchange Rate for the year ended 31 December 2009. Such translation should not be construed as a representation that the TL amounts have been converted into U.S. dollars pursuant to the requirements of IFRS. The high, low, average and period end exchange rates for the year ended 31 December 2009, based on the Bank's Published Exchange Rate and the rates published by the Central Bank are set out in "Exchange Rates".

Interest Income

The following table sets out the principal components of the Group's interest income for the years ended 31 December 2009 and 2008:

	For the year ended 31 December			
	2009	% of total	2008	% of total
	(TL, thousands, except %)			
Loans and advances:				
– to banks.....	66,803	1	133,831	2
– to customers	5,283,023	69	5,365,649	69
Trading and investment securities	1,422,673	19	1,575,290	20
Derivative financial instruments	396,903	5	82,569	1
Financial leases	254,671	3	297,227	4
Reserve deposits	114,668	2	218,706	3
Other.....	96,801	1	63,460	1
Total interest income.....	7,635,542	100	7,736,732	100

The Group's interest income decreased by TL101,190 thousand, or 1%, to TL7,635,542 thousand (U.S.\$5,066,380) for the year ended 31 December 2009, compared to TL7,736,732 thousand for the year ended 31 December 2008. Interest income from loans and advances to customers decreased to TL5,283,023 thousand and constituted 69% of total interest income for the year ended 31 December 2009, compared to TL5,365,649 thousand for the year ended 31 December 2008, when it also comprised 69% of total interest income.

The most significant factor affecting the Bank's interest income and interest expense for the year ended 31 December 2009, was the general decline in the interest rate environment in Turkey which began in 2008 and continued in 2009, marked by the reduction of the Central Bank's reference overnight interest rate during 2008 from 15.75% as of 31 December 2007 to 6.50% as of 31 December 2009.

The decrease in the Group's interest income for the year ended 31 December 2009 was primarily attributable to decreases in average interest rates on loans and advances to banks and customers and on trading and investment securities.

The Bank's trading and investment securities portfolio is largely held to maturity and the average balance for the year ended 31 December 2009 was largely unchanged from the year ended 31 December 2008, however the average interest rate on the trading and investment securities portfolio declined, resulting in lower interest income.

The following table sets out the weighted average interest rates on financial instruments by major currency outstanding as of 31 December 2009 and 2008:

	As of 31 December					
	2009			2008		
	U.S.\$	€	TL	U.S.\$	€	TL
	(%)					
Cash and balances with central banks.....	—	—	3.78	0.63	1.12	8.64
Loans and advances to banks.....	1.80	1.06	7.33	1.60	2.71	17.67
Financial assets held for trading...	5.81	7.34	8.59	8.15	6.81	19.21
Investment securities						
Available for sale	7.43	7.18	11.73	6.43	7.76	19.63
Held to maturity	6.80	5.54	11.49	7.36	5.99	20.08
Loans and advances to customers	5.29	6.14	17.81	6.04	7.37	24.06

The interest rate on the Bank's Turkish Lira-denominated interest earning assets declined significantly as of 31 December 2009 as compared with 31 December 2008. Although there were also declines in

the interest rates payable on the Bank's foreign currency interest earning assets, these were smaller. Loans in foreign currencies totalled TL18,067,562 thousand (U.S.\$11,988,297 thousand) as of 31 December 2009, accounting for 43% of the Group's loan portfolio, compared to TL18,331,859 thousand as of 31 December 2008 as their percentage contribution to the Group's loan portfolio remained stable.

Interest Expense

The following table sets out certain information relating to interest expense for the years ended 31 December 2009 and 2008:

	For the year ended 31 December	
	2009	2008
	<i>(TL, thousands)</i>	
Customer deposits.....	(2,866,166)	(3,983,091)
Funds borrowed.....	(477,008)	(578,328)
Derivative financial instruments	(319,171)	(148,337)
Securities issued	(44,863)	(82,530)
Repurchase agreement	(62,832)	(120,044)
Deposits from banks.....	(28,452)	(154,808)
Other	(2,536)	(850)
Total interest expense.....	(3,801,028)	(5,067,988)

Interest expenses for the year ended 31 December 2009 decreased by TL1,266,960 thousand, or 25%, to TL3,801,028 thousand (U.S.\$2,522,081 thousand) from TL5,067,988 thousand for the year ended 31 December 2008, due to the decrease in average interest rates paid by the Bank on amounts due to customers, as the average balance of amounts due to customers was largely unchanged.

The following table sets out the weighted average interest rates for financial instruments by major currency as of 31 December 2009 and 2008:

	As of 31 December					
	2009			2008		
	U.S.\$	€	TL	U.S.\$	€	TL
	<i>(%)</i>					
Deposits from banks	1.68	1.16	2.98	5.39	5.54	16.07
Customer deposits	1.94	1.90	7.87	4.50	3.60	20.28
Debt securities in issue.....	1.29	1.76	—	3.82	5.99	—
Financial liabilities designated at fair value	—	—	—	6.16	—	—
Funds borrowed	2.30	2.77	13.29	3.44	5.66	15.67

The interest rate on all of the Bank's Turkish Lira-denominated interest bearing liabilities declined significantly as 31 December 2009 as compared with 31 December 2008. Customer deposits in foreign currencies are primarily denominated in U.S. dollars and, to a lesser extent, in euro. Foreign currency term deposit balances accounted for 43% and 41% of total term deposits balances as of 31 December 2009 and 2008 respectively.

The following table sets out information relating to deposits from customers as of 31 December 2009 and 2008:

	As of 31 December 2009			As of 31 December 2008		
	Demand	Term	Total	Demand	Term	Total
	<i>(TL, thousands)</i>					
Foreign currency deposits:						
Saving deposits	2,076,935	8,229,426	10,306,361	1,754,634	8,420,204	10,174,838
Commercial deposits	2,208,694	6,723,689	8,932,383	1,801,831	7,015,821	8,817,652
Public sector deposits	—	—	—	3,338	—	3,338
	<u>4,285,629</u>	<u>14,953,115</u>	<u>19,238,744</u>	<u>3,559,803</u>	<u>15,436,025</u>	<u>18,995,828</u>
Turkish Lira deposits:						
Saving deposits	1,440,267	13,946,703	15,386,970	1,044,092	14,787,777	15,831,869
Commercial deposits	1,747,739	5,344,243	7,091,982	1,203,785	7,119,835	8,323,620
Funds deposited under repurchase agreements	—	130,100	130,100	—	160,449	160,449
Public sector deposits	<u>278,166</u>	<u>55,424</u>	<u>333,590</u>	<u>250,889</u>	<u>163,192</u>	<u>414,081</u>
	<u>3,466,172</u>	<u>19,476,470</u>	<u>22,942,642</u>	<u>2,498,766</u>	<u>22,231,253</u>	<u>24,730,019</u>
	<u>7,751,801</u>	<u>34,429,585</u>	<u>42,181,386</u>	<u>6,058,569</u>	<u>37,667,278</u>	<u>43,725,847</u>
Current	7,751,801	33,739,320	41,491,121	6,058,569	37,115,099	43,173,668
Non-current	—	690,265	690,265	—	552,179	552,179

As of 31 December 2009, approximately 48% of the Group's deposits, or TL21,251,188 thousand (U.S.\$14,476,286 thousand), were denominated in foreign currencies, with the remaining 52%, or TL23,362,377 thousand (U.S.\$15,914,426 thousand), denominated in Turkish Lira, including interest expense accrual.

During 2009, the Group implemented a programme to concentrate on its lower cost customer deposits. The Bank also experienced a slight shift in the balance of deposits from Turkish Lira deposits towards foreign currency deposits as a result of increased demand for maintaining deposits in U.S. dollars during times of economic turmoil.

Historically, interest expenses on deposits from banks and other borrowed funds have represented a relatively small percentage of the Group's total interest expense because the Group has not relied upon these as a principal source of its funding.

Net Interest Income and Net Interest Margin

During 2009, the Group experienced significant declines in the average yield of its interest earning assets, but even more significant declines in the average cost of its liabilities as it was able to decrease deposit prices more rapidly than loan yields, which resulted from the decreasing interest rate environment, and also from the Bank's programme to eliminate its highest cost customer deposits.

As a result of the foregoing factors, the Group's net interest income amounted to TL3,834,514 thousand (U.S.\$2,544,300 thousand) for the year ended 31 December 2009, compared to TL2,668,744 thousand for the year ended 31 December 2008, a 43.7% increase. The Group's net interest margin was 5.8% for the year ended 31 December 2009, compared with 4.5% for the year ended 31 December 2008.

Net Fee and Commission Income

The following table sets out certain information relating to fee and commission income for the years ended 31 December 2009 and 2008:

	For the year ended 31 December	
	2009	2008
	<i>(TL, thousands)</i>	
Fee and commission income on:		
Credit/debit cards.....	764,711	775,557
Banking services.....	587,524	478,167
Assets under management	251,363	229,036
Loans		
Credit related commitments.....	213,660	181,364
Loans and advances.....	115,876	86,973
Brokerage.....	55,858	31,879
Insurance products.....	37,216	25,080
Factoring.....	8,947	10,978
Other.....	41,064	20,502
Total fee and commission income	2,076,219	1,839,536

Fee and commission income increased by TL236,683 thousand, or 13%, to TL2,076,219 thousand for the year ended 31 December 2009, from TL1,839,536 thousand for the year ended 31 December 2008. The increase was due primarily to an increase in fees and commissions on banking services, which increased by TL109,357 thousand, or 23%, to TL587,524 thousand in 2009 from TL478,167 thousand in 2008, including as a result of good performance from the Bank's cash management and trade finance businesses.

In 2009, the Bank experienced a slight decline in fee and commission income from credits cards, due to weak performance of its credit card interchange fees, as a result of low interest rate environment, as the interchange fees are based in part on overnight interest rates.

The following table sets out certain information relating to fee and commission expense for the years ended 31 December 2009 and 2008:

	For the year ended 31 December	
	2009	2008
	<i>(TL, thousands)</i>	
Fee and commission expense from:		
Credit/debit cards.....	(201,379)	(238,363)
Insurance products.....	(55,039)	(40,450)
Brokerage.....	(4,798)	(6,028)
Factoring.....	(2,619)	(4,451)
Funds borrowed.....	(1,258)	(1,232)
Other.....	(86,430)	(43,752)
Total fee and commission expense	(351,523)	(334,276)
Net fee and commission income	1,724,696	1,505,260

Fee and commission expense increased by TL17,247 thousand, or 5%, to TL351,523 thousand for the year ended 31 December 2009, from TL334,276 thousand for the year ended 31 December 2008. This increase was primarily due to an increase in other fees and commission expenses of TL42,678 thousand, or 98%, to TL86,430 thousand for the year ended 31 December 2009 from TL43,752 thousand for the year ended 31 December 2008.

Other fee and commission expense mainly consists of agency and dealing room commissions, collection and payment services (electronic fund transfer charges), commissions paid for options and credit reference system inquiry commissions.

As a result of the above, net fees and commission income increased by TL219,436, or 14.6% to TL1,724,696 for the year ended 31 December 2009 from TL1,505,260 for the year ended 31 December 2008.

Trading Gain

The Group recorded a trading gain (comprising the aggregate of foreign exchange gains, net, net trading, hedging and fair value income/(loss) and gains/(losses) from investment securities, net in the Annual IFRS Financial Statements) of TL282,526 thousand (U.S.\$187,463 thousand) for the year ended 31 December 2009, compared to a trading gain of TL108,902 thousand for the year ended 31 December 2008.

Foreign exchange gains increased by TL24,345 thousand (U.S.\$16,154 thousand), or 23%, to TL130,623 thousand in the period ended 31 December 2009, from TL106,278 thousand for the period ended 31 December 2008. This increase was primarily a result of increased commercial activities.

Net trading, hedging and fair value income increased by TL80,480 thousand, or 210%, to TL118,678 thousand (U.S.\$78,746 thousand) for the year ended 31 December 2009, from TL38,198 thousand for the year ended 31 December 2008. This increase was primarily a result of increased volume of trading securities transactions in a volatile environment with decreasing interest rates.

The Group recorded gains from investment securities of TL33,225 thousand (U.S.\$22,046 thousand) for the year ended 31 December 2009, compared to losses of TL35,574 thousand for the year ended 31 December 2008. These gains were primarily a result of disposal of available for sale securities.

Other Operating Income

The Group's other operating income, which consists mainly of fixed assets sale income, dividend income and other income decreased by TL58,032 thousand, or 30% to TL136,351 thousand (U.S.\$90,472 thousand) for the year ended 31 December 2009, from TL194,383 thousand for the year ended 31 December 2008. This decrease was primarily a result of decrease in dividend income, which comprises one-off dividends on the Group's shares in available for sale portfolio.

Operating Income

As a result of the foregoing factors, operating income increased by TL1,443,105 thousand, or 32%, to TL6,000,619 thousand (U.S.\$3,981,567 thousand) for the year ended 31 December 2009 from TL4,557,514 thousand for the year ended 31 December 2008.

Impairment losses on loans and credit related commitments (net)

Impairment losses on loans and credit related commitments (net) increased by TL1,193,308 thousand, or 282%, to TL1,616,526 thousand (U.S.\$1,072,607 thousand) for the year ended 31 December 2009, from TL423,218 thousand for the year ended 31 December 2008.

As a result of macroeconomic deterioration and the Bank's retail-oriented product mix, the Bank began to experience deteriorating asset quality beginning in the fourth quarter of 2008, which continued at an increased pace in the first half of 2009. In response, the Bank undertook several projects to improve its credit systems and collection infrastructure and also undertook a series of proactive restructuring measures beginning in April 2009 with respect to its SME, credit card and commercial loan portfolios, which were intended to control asset quality deterioration. One of the key features of these initiatives is the proactive restructuring of watch loans, in order to prevent them from deteriorating to the point of becoming non-performing loans. By 31 December 2009, the Bank had restructured loans in an aggregate amount of approximately TL1,100,000 thousand, corresponding to approximately 3% of the Bank's aggregate loan portfolio. Of the aggregate amount, approximately 50% were credit card and retail loans, approximately 38% were SME loans and approximately 10% were commercial loans. The Bank recovered approximately TL725,000 thousand of non-performing loans in conjunction with the Crash Programmes.

In 2009, the Bank's ratio of non-performing loans to total loans increased to 6.4% as of 30 September 2009 and declined slightly to 6.3% as of 31 December 2009, compared with 4.1% as of 31 December 2008. The Bank's inflows of non-performing loans began to decline during the third quarter of 2009. The Bank's ratio of collections to non-performing loan inflows improved substantially in the fourth quarter of 2009.

Provision for retirement benefit obligations

Provisions for retirement benefit obligations increased by TL26,628 thousand, or 32% to TL110,302 thousand (U.S.\$73,188 thousand) for the year ended 31 December 2009, from TL83,674 thousand for the year ended 31 December 2008. This increase was primarily a result of increase in provision for post-employment benefits transferable to SSI.

Other Operating Expenses

Other operating expenses increased by TL76,815 thousand, or 4%, to TL2,189,061 thousand (U.S.\$1,452,499 thousand) for the year ended 31 December 2009, from TL2,112,246 thousand for the year ended 31 December 2008. Other operating expense is primarily composed of general and administrative expenses, which made up 39% and 38% of the total operating expenses for the years ended 31 December 2009 and 2008, respectively.

Following a temporary halt during most of 2009, the Bank's branch expansion plan resumed in the fourth quarter of 2009, when the Bank opened seven new retail branches, resulting in increases in depreciation and rent expenses.

The cost to income ratio of the Group was 36.5% and 46.3% for the years ended 31 December 2009 and 2008, respectively, and the operating costs to average total assets ratio was 3.1% and 3.3% for the years ended 31 December 2009 and 2008, respectively. The decline in both ratios resulted from the Group's tight cost management and efficiency strategies applied during the course of 2009, including back-office centralisation and head count rationalisation, as well as the migration of transactions and sales activity to non-branch channels.

Operating Profit

Operating profit, comprised of operating income less other expenses, increased by TL214,050 thousand, or 13%, to TL1,899,268 thousand (U.S.\$1,260,214 thousand) for the year ended 31 December 2009 from TL1,685,218 thousand for the year ended 31 December 2008.

Share of Profit of Associates and Joint Ventures

Share of profit from associates and joint ventures comprises the Group's 30.67% interest in Banque de Commerce and 30.45% interest in Yapı Kredi Koray Gayrimenkul Yatırım Ortaklığı A.Ş. The Group's share of profits reverted to a loss of TL1,254 thousand (U.S.\$832 thousand) for the year ended 31 December 2009 from a profit of TL1,166 thousand for the year ended 31 December 2008.

Profit before Income Tax

Profit before income tax, comprising operating profit and share of profit of associates and joint ventures, increased by TL211,630 thousand, or 13%, to TL1,898,014 thousand (U.S.\$1,259,382 thousand) for the year ended 31 December 2009 from TL1,686,384 thousand for the year ended 31 December 2008.

Income Tax Expense

Income tax expense decreased by TL10,470 thousand, or 3%, to TL305,946 thousand (U.S.\$203,003 thousand) for the year ended 31 December 2009 from TL316,416 thousand in 2008. Corporate Tax Law 5520 became effective as of 1 January 2006 with the Official Gazette 26205 published on 21 June 2006. By the issue of this law, Corporate Tax Law 5422 was abolished.

Under the Corporate Tax Law 5520, the applicable corporate tax rate is 20% for 2009 and 2008. Corporate tax is payable at a rate of 20% over the corporate tax base of the company after adjusting for certain disallowable expenses, exempt income, investment allowance and other additions and deductions. The annual corporate income tax return is required to be filed until 25th day of the fourth month following the close of the related fiscal year. Payments will be carried out in single instalment until the end of the month in which the tax return is to be filed.

Profit for the Year

The Group's profit for the year increased by TL221,100 thousand, or 16%, to TL1,592,068 thousand (U.S.\$1,056,378 thousand) for the year ended 31 December 2009 from TL1,369,968 thousand for the year ended 31 December 2008.

Average shareholders' equity excluding minority interest is calculated by adding the quarterly consolidated BRSA shareholders' equity amounts excluding minority interest and current year's profit

from the beginning of the period (including last year) until the end of the period and dividing the total by number of periods.

The Group's return on average equity excluding minority interest was 23% and 27% for the years ended 31 December 2009 and 2008.

Analysis by Segment

Since the launch of its new organisational structure in February 2009, the Group has carried out its banking operations through three main business units: (a) retail banking (including credit cards, individual and SME banking), (b) corporate and commercial banking, and (c) private banking and wealth management. The Group also has foreign and other operations.

The following tables set forth certain data for the Group's segments for the six months ended 30 June 2011 and 2010 and the years ended 31 December 2010, 2009 and 2008:

30 June 2011	Retail Banking	Corporate and Commercial Banking	Private Banking and Wealth Management	Foreign Operations	Other ⁽¹⁾	Eliminations	Group
				(TL thousands)			
Segment revenue	1,230,626	735,866	140,995	66,154	668,609	(94,602)	2,747,648
Segment expenses	(686,484)	(222,536)	(56,843)	(41,719)	(322,534)	38,811	(1,291,305)
Segment result	544,142	513,330	84,152	24,435	346,075	(55,791)	1,456,343
Operating profit	544,142	513,330	84,152	24,435	346,075	(55,791)	1,456,343
Share of results of associates and joint ventures	—	—	—	—	7,904	—	7,904
Profit before tax	544,142	513,330	84,152	24,435	353,979	(55,791)	1,464,247
Income tax expense	—	—	—	—	(264,595)	—	(264,595)
Profit for the year	544,142	513,330	84,152	24,435	89,384	(55,791)	1,199,652
Segment assets	30,831,523	35,758,473	1,414,120	4,364,903	34,905,101	(1,194,578)	106,079,542
Associates and joint ventures	—	—	—	—	111,300	—	111,300
Total assets	30,831,523	35,758,473	1,414,120	4,364,903	35,016,401	(1,194,578)	106,190,842
Segment liabilities	26,936,591	20,309,867	13,570,751	3,618,178	43,191,225	(1,435,770)	106,190,842
Total liabilities	26,936,591	20,309,867	13,570,751	3,618,178	43,191,225	(1,435,770)	106,190,842

(1) Other segment liabilities also include the total equity in the balance sheet.

30 June 2010	Retail Banking	Corporate and Commercial Banking	Private Banking and Wealth Management	Foreign Operations	Other ⁽¹⁾	Eliminations	Group
				(TL thousands)			
Segment revenue	1,340,654	650,618	168,967	68,438	766,135	(225,278)	2,769,534
Segment expenses	(605,951)	(251,420)	(53,683)	(19,119)	(396,467)	29,181	(1,297,459)
Segment result	734,703	399,198	115,284	49,319	369,668	(196,097)	1,472,075
Operating profit	734,703	399,198	115,284	49,319	369,668	(196,097)	1,472,075
Share of results of associates and joint ventures	—	—	—	—	2,593	—	2,593
Profit before tax	734,703	399,198	115,284	49,319	438,853	(262,689)	1,474,668
Income tax expense	—	—	—	—	(295,610)	—	(295,610)
Profit for the year	734,703	399,198	115,284	49,319	143,243	(262,689)	1,179,058
Segment assets	21,988,879	27,620,354	1,005,810	4,329,203	27,193,234	(830,166)	81,307,314
Associates and joint ventures	—	—	—	—	58,125	—	58,125
Total assets	21,988,879	27,620,354	1,005,810	4,329,203	27,251,359	(830,166)	81,365,439
Segment liabilities	20,112,921	20,363,368	10,940,697	3,726,224	27,048,704	(826,475)	81,365,439
Total liabilities	20,112,921	20,363,368	10,940,697	3,726,224	27,048,704	(826,475)	81,365,439

(1) Other segment liabilities also include the total equity in the balance sheet.

31 December 2010	Retail Banking	Corporate and Commercial Banking	Private Banking and Wealth Management	Foreign Operations	Other ⁽¹⁾	Eliminations	Group
				(TL thousands)			
Segment revenue	2,791,902	1,328,957	379,007	165,119	1,324,808	(296,998)	5,692,795
Segment expenses	(1,347,294)	(633,416)	(104,257)	(53,289)	(825,561)	63,581	(2,900,236)
Segment result	1,444,608	695,541	274,750	111,830	499,247	(233,417)	2,792,559
Operating profit	1,444,608	695,541	274,750	111,830	499,247	(233,417)	2,792,559
Share of results of associates and joint ventures	—	—	—	—	(6,326)	—	6,326
Profit before tax	1,444,608	695,541	274,750	111,830	505,573	(233,417)	2,798,885
Income tax expense	—	—	—	—	(563,151)	—	(563,151)
Profit for the year	1,444,608	695,541	274,750	111,830	(57,578)	(233,417)	2,235,734
Segment assets	26,522,965	33,113,940	1,310,016	4,231,558	27,809,818	(1,272,235)	91,716,062
Associates and joint ventures	—	—	—	—	94,171	—	94,171
Total assets	26,522,965	33,113,940	1,310,016	4,231,558	27,903,989	(1,272,235)	91,810,233
Segment liabilities	23,676,641	21,826,378	11,257,340	3,545,619	32,776,864	(1,272,609)	91,810,233
Total liabilities	23,676,641	21,826,378	11,257,340	3,545,619	32,776,864	(1,272,609)	91,810,233

(1) Other segment liabilities also include the total equity in the balance sheet.

31 December 2009	Retail Banking	Corporate and Commercial Banking	Private Banking and Wealth Management	Foreign Operations	Other ⁽¹⁾	Eliminations	Group
				(TL thousands)			
Segment revenue	2,775,312	1,332,593	363,466	116,403	1,655,245	(242,400)	6,000,619
Segment expenses	(2,356,880)	(461,282)	(107,802)	(52,929)	(1,181,609)	59,151	(4,101,351)
Segment result	418,432	871,311	255,664	63,474	473,636	(183,249)	1,899,268
Operating profit	418,432	871,311	255,664	63,474	473,636	(183,249)	1,899,268
Share of results of associates and joint ventures	—	—	—	—	(1,254)	—	(1,254)
Profit before tax	418,432	871,311	255,664	63,474	472,382	(183,249)	1,898,014
Income tax expense	—	—	—	—	(305,946)	—	(305,946)
Profit for the year	418,432	871,311	255,664	63,474	166,436	(183,249)	1,592,068
Segment assets	19,207,596	22,926,250	809,251	3,952,931	24,755,096	(998,716)	70,652,408
Associates and joint ventures	—	—	—	—	83,622	—	83,622
Total assets	19,207,596	22,926,250	809,251	3,952,931	24,838,718	(998,716)	70,736,030
Segment liabilities	20,518,455	15,860,713	9,989,572	3,350,094	22,009,365	(992,169)	70,736,030
Total liabilities	20,518,455	15,860,713	9,989,572	3,350,094	22,009,365	(992,169)	70,736,030

(1) Other segment liabilities also include the total equity in the balance sheet.

31 December 2008	Retail Banking	Corporate and Commercial Banking	Private Banking and Wealth Management	Foreign Operations	Other ⁽¹⁾	Eliminations	Group
				(TL thousands)			
Segment revenue	2,329,407	1,112,725	288,802	93,821	916,727	(183,968)	4,557,514
Segment expenses	(1,299,166)	(291,629)	(117,686)	(57,565)	(1,205,810)	99,560	(2,872,296)
Segment result	1,030,241	821,096	171,116	36,256	(289,083)	(84,408)	1,685,218
Operating profit	1,030,241	821,096	171,116	36,256	(289,083)	(84,408)	1,685,218
Share of results of associates and joint ventures	—	—	—	—	1,166	—	1,166
Profit before tax	1,030,241	821,096	171,116	36,256	(287,917)	(84,408)	1,686,384
Income tax expense	—	—	—	—	(316,416)	—	(316,416)
Profit for the year	1,030,241	821,096	171,116	36,256	(604,333)	(84,408)	1,369,968
Segment assets	18,367,894	23,331,433	551,719	3,920,005	25,023,941	(1,589,537)	69,605,455
Associates	—	—	—	—	86,947	—	86,947
Total assets	18,367,894	23,331,433	551,719	3,920,005	25,110,888	(1,589,537)	69,692,402
Segment liabilities	19,367,453	18,160,125	8,467,738	3,374,032	21,905,892	(1,582,838)	69,692,402
Total liabilities	19,367,453	18,160,125	8,467,738	3,374,032	21,905,892	(1,582,838)	69,692,402

(1) Other segment liabilities also include the total equity in the balance sheet.

Retail Banking

Retail banking products and services offered to customers include credit cards, consumer loans (including general purpose loans, auto loans and mortgages), SME loans, time and demand deposits, investment accounts, life and non-life insurance products and payroll services. The Bank's credit card business was moved within the retail banking division as part of the 2009 reorganisation. Credit Card operations cover the management of products and services for member merchants as well as the sales and marketing operations for a variety of customer types. Operating profit for the retail banking segment decreased to TL544,142 thousand (U.S.\$356,814 thousand) for the six month period ended 30 June 2011 from TL734,703 thousand for the same period in 2010. The decrease resulted primarily from continuous decrease in credit cards cap rate, the maximum chargeable interest on credit cards receivables set by the Central Bank. Operating profit for the retail banking segment increased by TL1,026,176 thousand, or 245%, to TL1,444,608 thousand (U.S.\$988,442 thousand) for the year ended 31 December 2010 from TL418,432 thousand for the year ended 31 December 2009, as compared with TL1,030,241 for the year ended 31 December 2008. The increase in the operating profit for the retail banking segment was primarily due to improvements in asset quality and collection performance, attributed to the general improvement in the economic environment.

Corporate and Commercial Banking

The primary business lines in the commercial banking segment are working capital, financing, foreign trade finance, project finance, leasing and factoring, domestic and international non-cash credit line facilities such as letters of credit and guarantees, cash management and e-banking services to mid-sized and large corporates.

Operating profit for the corporate and commercial banking segment increased to TL513,330 thousand (U.S.\$336,610 thousand) for the six months ended 30 June 2011 from TL399,198 thousand for the six months ended 30 June 2010. It decreased to TL695,541 thousand (U.S.\$475,909 thousand) for the year ended 31 December 2010 from TL871,311 thousand for the year ended 31 December 2009 and TL821,096 thousand for the year ended 31 December 2008. These decreases were the result of decreases in margins, which prevented the increased revenues from increasing the total operating profit.

Private Banking and Wealth Management

Through its private banking and wealth management activities, the Group serves high net worth individuals and delivers investment products. Among the products and services offered to private banking customers are time deposits, fiduciary deposits, mutual funds, derivative products such as forwards, futures and options, personal loans, foreign exchange, gold and equity trading, pension plans, insurance products, safe deposit boxes and e-banking services. The Group also provides

investment advisory and portfolio management services through the Group's portfolio management and brokerage subsidiaries.

Operating profit for the private banking and wealth management segment decreased to TL84,152 thousand (U.S.\$55,182 thousand) for the six months ended 30 June 2011 from TL115,284 thousand for the six months ended 30 June 2010. It increased to TL274,750 thousand (U.S.\$187,992 thousand) for the year ended 31 December 2010 from TL255,664 thousand for the year ended 31 December 2009 which represented an increase of TL84,548 thousand compared with TL171,116 thousand for the year ended 31 December 2008.

Foreign Operations

Foreign operations include Group's banking operations in the Netherlands, Azerbaijan and Russia. Operating profit for the foreign operations segment decreased to TL24,435 thousand (U.S.\$16,023 thousand) for the six months ended 30 June 2011 from TL49,319 thousand for the six months ended 30 June 2010. It increased to TL111,830 thousand (U.S.\$76,517 thousand) for the year ended 31 December 2010 from TL63,474 thousand for the year ended 31 December 2009 compared with TL36,256 thousand for the year ended 31 December 2008.

Other operations

Other operations mainly consist of treasury transactions of supporting business units, insurance operations and other unallocated transactions, including the effect of free capital. Operating profit for the other operations segment decreased to TL346,075 thousand (U.S.\$226,934 thousand) for the six months ended 30 June 2011 from TL369,668 thousand for the six months ended 30 June 2010. It increased to TL499,247 thousand (U.S.\$341,599) for the year ended 31 December 2010 from TL473,636 thousand for the year ended 31 December 2009, compared with a loss of TL289,083 thousand for the year ended 31 December 2008. The substantial improvement in the results shown in this segment from 2008 to 2009 was driven by a significant increase in the revenues of treasury activities. Business volumes did not substantially change from 2008 to 2009, however, the Bank's treasury activities benefited from the declining interest rate environment, resulting from rate cuts by the Central Bank of Turkey as a measure to support economic activity during the financial crisis. As a result of its decreased cost of funding, the Bank was able to generate higher revenues in 2009 compared with previous year from treasury activities (security portfolio), as was the case for most other banks in Turkey.

Financial Condition

Assets

As of 30 June 2011, the Group had total assets of TL106,190,842 thousand (U.S.\$66,811,905 thousand), which represented an increase of 16% compared to TL91,810,233 thousand as of 31 December 2010, an increase of 30% from TL70,736,030 thousand as of 31 December 2009, and an increase of 2% from TL69,692,402 thousand as of 31 December 2008. The overall increase in the Group's total assets was primarily attributable to the increase in the volume of loans, driven by growth in the Turkish economy and continued expansion of the Group through branch growth and new products.

Liabilities

As of 30 June 2011, the Group had total liabilities of TL94,110,707 thousand (U.S.\$59,211,468 thousand), which represented an increase of 16% from TL80,866,469 thousand as of 31 December 2010, an increase of 30% from TL62,029,627 thousand as of 31 December 2009, compared to a decrease of less than 1% from TL62,653,387 thousand as of 31 December 2008. The increase from 2010 to 2011 was mainly attributable to an increase in deposits, also driven by growth in the Turkish economy and branch expansion.

Total Equity

As of 30 June 2011, the Group's total equity amounted to TL12,080,135 thousand (U.S.\$7,600,437 thousand), or 11% of the Group's total assets, compared to TL10,943,764 thousand, or 12% of the Group's total assets as of 31 December 2010, TL8,706,403 thousand, or 12% of the Group's consolidated total assets, as of 31 December 2009, and TL7,039,015 thousand, or 10% of total assets as of 31 December 2008. The Group paid dividends to its minority shareholders of TL1,808 thousand in the first half of 2011, TL693 thousand in 2010, TL1,438 thousand in 2009 and TL1,450 thousand in 2008. As of 30 June 2011, the Group had TL4,347,051 thousand in share capital outstanding.

Cash and Balances with Central Banks

Cash and balances with Central Banks represent a relatively small percentage of the Group's total assets, making up 9%, 7%, 6% and 7% as of 30 June 2011 and 31 December 2010, 2009 and 2008, respectively.

The following table sets out a breakdown of cash and balances with Central Banks as of the dates indicated for the Group:

	As of 30 June	As of 31 December		
	2011	2010	2009	2008
		<i>(TL, thousands)</i>		
Cash in hand – foreign currency	253,821	188,190	173,797	182,631
Cash in hand – TL	630,500	511,215	479,054	421,331
Cheques received – foreign currency	332	358	183	372
Others	3,480	2,464	2,531	3,759
Demand deposits at central banks	1,165,026	942,222	715,217	888,849
Reserve deposits at central banks	7,862,585	4,389,977	2,858,552	3,220,074
Total	9,915,744	6,034,426	4,229,335	4,717,016

The Group's reserve deposits include a balance with the Central Bank of Turkey of TL7,719,646 thousand as of 30 June 2011 compared to TL4,351,507 thousand as of 31 December 2010, TL2,658,972 thousand as of 31 December 2009 and TL3,093,081 thousand as of 31 December 2008; a balance of TL137,699 thousand with DeNederlandsche Bank as of 30 June 2011, compared to TL34,180 thousand as of 31 December 2010, TL197,391 thousand as of 31 December 2009 and TL119,789 thousand as of 31 December 2008; a balance of TL3,333 thousand with the Central Bank of the Russian Federation as of 30 June 2011, compared to TL3,508 thousand as of 31 December 2010, TL1,660 thousand as of 31 December 2009 and TL348 thousand as of 31 December 2008; and a balance with the National Bank of Azerbaijan of TL1,907 thousand as of 30 June 2011, compared to TL781 thousand as of 31 December 2010, TL530 thousand as of 31 December 2009 and TL6,856 thousand as of 31 December 2008. These funds are not available to finance the Group's day-to-day operations.

The increase in cash and balances with Central Banks was primarily due to the increase in reserve deposits at central banks which increased by TL3,472,608 or 79% to TL7,862,585 as of 30 June 2011 from TL4,389,977 as of 31 December 2010, which represented an increase from TL4,229,335 as of 31 December 2009 after a decrease in 2009. This increase in reserve deposits with central banks was mainly due to the increased reserve requirements of the Central Bank as a result of both volume and rate increases.

The Group's demand deposits with other financial institutions increased to TL497,024 thousand as of 30 June 2011 compared to TL299,091 thousand as of 31 December 2010, TL327,628 thousand as of 31 December 2009 and TL572,235 thousand as of 31 December 2008. Time deposits increased by 12% as of 30 June 2011 to TL2,358,003 thousand compared to TL2,098,943 thousand as of 31 December 2010, TL1,886,997 thousand as of 31 December 2009 and TL2,510,351 thousand as of 31 December 2008.

	As of 30 June	As of 31 December		
	2011	2010	2009	2008
		<i>(TL, thousands)</i>		
Due from banks nostro/demand	497,024	299,091	327,628	572,235
Due from banks time	2,358,003	2,098,943	1,886,997	2,510,351
Interbank money market	41,319	974,073	1,581,459	227,962
Total	2,896,346	3,372,107	3,796,084	3,310,548

Loans and advances to customers represent the largest component of the Group's assets. As of 30 June 2011, total loans and advances to customers (net), amounted to TL67,546,055 thousand (U.S.\$42,497,833 thousand), which represented 64% of the Group's total assets compared to TL57,804,154 thousand (or 63% of total assets) as of 31 December 2010, TL42,137,597 thousand (or 60% of total assets) as of 31 December 2009 and TL42,469,983 thousand (or 61% of total assets) as of 31 December 2008. The Group's net loans and advances to customers increased by 17% from 31 December 2010 to 30 June 2011, increased by 37% from 31 December 2009 to 31 December 2010 and decreased by less than 1% from 31 December 2008 to 31 December 2009.

The Group provides financing for various purposes, the majority of which are corporate loans and loans to SMEs, with maturities concentrated at approximately 12 months. However, as demand for longer-term financing from existing customers and other high quality corporate credits increases, the Group expects the maturity profile of its portfolio to increase further.

The following table sets out the Group's loan portfolio by sectors in line with IFRS standards:

	As of 31 December					
	2010		2009		2008	
	<i>(TL, thousands, except %)</i>					
Retail and consumer .	20,895,613	36	16,312,411	39	15,951,586	38
Manufacturing.....	13,400,928	23	9,556,492	23	10,375,013	24
Other	23,507,613	41	16,268,694	39	16,143,384	38
Total	57,804,154	100	42,137,597	100	42,469,983	100

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The following table sets out the Group's performing retail and corporate loans by category as of the dates indicated in line with BRSA financial statements including watchlist customers:

	As of 30 June	As of 31 December		
	2011	2010	2009	2008
		<i>(TL, thousands)</i>		
Individual loans				
Housing	5,828,464	5,231,198	3,825,340	3,181,777
Credit cards	9,217,827	8,549,487	7,494,605	7,445,537
Auto.....	1,073,137	957,023	591,847	627,487
Other.....	4,544,789	3,422,440	2,492,174	2,409,516
Total individual loans	20,694,217	18,160,148	14,403,966	13,664,317
Loans to companies (including SMEs).....	42,999,663	36,082,832	24,458,816	25,246,171
Total loans to companies.....	42,999,663	36,082,832	24,458,816	25,246,171
Total	63,693,880	54,242,980	38,862,782	38,910,488

The Bank expects that its primary growth opportunities in its retail segment will be in mortgages, general purpose loans to individuals and SMEs, which are presently underdeveloped markets in Turkey. The credit card market is also expected to continue to be a focus area for the Bank, although with lower growth as it is a well developed and relatively more penetrated market.

Composition by Maturity and Interest Rate

The following table sets out certain information relating to the maturity profile of the Group's loan portfolio (including non-performing loans) based upon the original term to maturity (showing lifetime cash flows, which as a result are greater than the balance sheet amounts) in line with IFRS requirements as of the dates indicated:

	As of 31 December		
	2010	2009	2008
	<i>(TL, thousands)</i>		
Non-interest bearing	1,172,189	1,035,933	1,122,498
Up to 3 months	17,908,586	13,426,431	14,373,587
3 months to 1 year.....	18,260,692	14,655,016	14,811,686
1 year to 5 years	19,684,584	13,289,898	12,440,060
Over 5 years.....	6,587,161	5,356,232	5,668,308
Total loans	63,613,212	47,763,510	48,416,139

Although the loans have an average maturity of 12 months, most of them can be, and generally are, rolled over at the end of their maturity in accordance with the creditworthiness of the borrowers.

Composition of Loan Portfolio by Currency

As of 30 June 2011, foreign currency-denominated loans amounted to TL28,459,550 thousand (U.S.\$17,905,845 thousand), or 42% of total loans (of which U.S. dollar obligations were the most significant portion), compared to TL24,187,069 thousand as of 31 December 2010, TL18,067,562 thousand as of 31 December 2009 and TL18,331,859 thousand as of 31 December 2008.

The following table sets out an analysis of the composition of the Group's performing cash loan portfolio by currency, prepared in accordance with IFRS as of the dates indicated:

	As of 30 June	As of 31 December		
	2011	2010	2009	2008
		<i>(TL, thousands)</i>		
TL.....	39,086,505	33,617,085	24,070,035	24,138,124
U.S.\$.....	16,864,010	15,060,611	11,111,317	11,182,602
Euro.....	10,752,493	8,443,658	6,369,968	6,555,605
Other.....	843,047	682,800	586,277	593,652
Total	67,546,055	57,804,154	42,137,597	42,469,983

Derivatives

The Group also enters into interest rate and foreign exchange swap and future contracts, which are agreements in order to hedge its interest rate and foreign currency exposure risk. The following tables set out certain information on consolidated options, futures and swaps as of the dates indicated based upon management data in line with IFRS requirements:

	As of 30 June 2011		
	Fair Values		
	Contract/ amount	Assets	Liabilities
		<i>(TL, thousands)</i>	
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards.....	7,834,176	80,654	35,251
Currency swaps.....	15,235,312	53,977	86,240
OTC currency options.....	12,384,808	130,550	117,841
Total OTC foreign exchange derivatives	35,454,296	265,181	239,332
Interest rate derivatives:			
Interest rate swaps.....	6,811,970	37,175	72,296
Cross currency interest rate swaps	2,721,585	48,001	37,243
OTC interest rate options.....	1,871,520	118	1,580
Total OTC interest rate derivatives.....	11,405,075	85,294	111,119
Other derivatives.....	1,491,630	26,274	10,344
Total derivatives assets/(liabilities) held for trading.....	48,351,001	376,749	360,795
Derivatives held for hedging			
Derivatives designated as fair value hedges:			
Cross currency interest rate swaps	3,826,525	59,438	135,912
Derivatives designated as cash flow hedges:			
Interest rate swaps.....	23,331,379	25,093	153,137
Total derivatives assets/(liabilities) held for hedging	27,157,904	84,531	289,049
Total recognised derivative assets/(liabilities).....	75,508,905	461,280	649,844
Current.....	—	322,257	212,568
Non-current	—	139,023	437,276
Total recognised derivative assets/(liabilities).....	75,508,905	461,280	649,844

As of 31 December 2010

		Fair Values	
	Contract/ amount	Assets	Liabilities
		(TL, thousands)	
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	5,287,933	24,255	33,661
Currency swaps.....	24,093,958	314,657	195,156
OTC currency options	10,928,414	77,679	75,371
Total OTC foreign exchange derivatives	40,310,305	416,591	304,188
Interest rate derivatives:			
Interest rate swaps	3,541,598	29,705	36,885
Cross currency interest rate swaps	3,274,251	240,306	8,640
Total OTC interest rate derivatives.....	6,815,849	270,011	45,525
Other derivatives.....	918,313	6,922	9,455
Total derivatives assets/(liabilities) held for trading	48,044,467	693,524	359,168
Derivatives held for hedging			
Derivatives designated as fair value hedges:			
Cross currency interest rate swaps	4,317,238	34,462	313,917
Derivatives designated as cash flow hedges:			
Interest rate swaps	8,527,020	3,739	139,746
Total derivative assets/(liabilities) held for hedging.....	12,844,258	38,201	453,663
Total recognised derivative assets/(liabilities).....	60,888,725	731,725	812,831
Current.....	—	664,284	188,316
Non-current	—	67,441	624,515
Total recognised derivative assets/(liabilities).....	60,888,725	731,725	812,831

As of 31 December 2009

		Fair Values	
	Contract/ amount	Assets	Liabilities
		(TL, thousands)	
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	4,076,196	39,284	42,170
Currency swaps.....	13,815,348	474,910	12,707
OTC currency options	3,938,532	30,974	30,880
Total OTC foreign exchange derivatives	21,830,076	545,168	85,757
Interest rate derivatives:			
Interest rate swaps	7,191,104	38,170	25,336
Cross currency interest rate swaps	3,025,092	33,889	156,490
OTC interest rate options.....	1,793,988	477	932
Total OTC interest rate derivatives.....	12,010,184	72,536	182,758
Other derivatives.....	423,808	—	—
Total derivatives assets/(liabilities) held for trading	34,264,068	617,704	268,515
Derivatives held for hedging			
Derivatives designated as fair value hedges:			
Cross currency interest rate swaps	3,968,893	128,631	357,613
Derivatives designated as cash flow hedges:			
Interest rate swaps	—	—	—
Total derivative assets/(liabilities) held for hedging.....	3,968,893	128,631	357,613
Total recognised derivative assets/(liabilities).....	38,232,961	746,335	626,128
Current.....	—	494,171	126,341
Non-current	—	252,164	499,787
Total recognised derivative assets/(liabilities).....	38,232,961	746,335	626,128

As of 31 December 2008

		Fair Values	
	Contract/ amount	Assets	Liabilities
		(TL, thousands)	
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	3,875,363	83,184	65,999
Currency swaps.....	8,047,504	235,958	50,147
OTC currency options	769,814	1,847	521
Total OTC foreign exchange derivatives	12,692,681	320,989	116,667
Interest rate derivatives:			
Interest rate swaps	3,179,352	526	22,637
Cross currency interest rate swaps	2,188,339	112,136	81,478
OTC interest rate options.....	266,440	—	—
Total OTC interest rate derivatives.....	5,634,131	112,662	104,115
Other derivatives.....	46,462	—	—
Total derivatives assets/(liabilities) held for trading	18,373,274	433,651	220,782
Derivatives held for hedging			
Derivatives designated as fair value hedges:			
Cross currency interest rate swaps	—	—	—
Derivatives designated as cash flow hedges:			
Interest rate swaps	—	—	—
Total derivative assets/(liabilities) held for hedging.....	—	—	—
Total recognised derivative assets/(liabilities).....	18,373,274	433,651	220,782
Current.....	—	370,839	146,828
Non-current	—	62,812	73,954
Total recognised derivative assets/(liabilities).....	18,373,274	433,651	220,782

Investment Securities

Securities Portfolio

The Group's securities portfolio comprises of trading securities, held to maturity securities and available for sale securities. Trading securities are acquired or incurred principally for the purpose of selling or repurchasing them in the near term or to form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.

Trading securities are initially recognised and subsequently re-measured at fair value. Securities with fixed maturity, where management has both the intent and the ability to hold to maturity, are classified as held to maturity. Securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, or client's servicing activity, are classified as available for sale. Management determines the appropriate classification of its investments at the time of the purchase.

Investment securities are initially recognised at fair value. Available for sale financial assets are subsequently re-measured at fair value. Gains and losses arising from changes in the fair value of securities classified as available for sale are recognised in the equity, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is transferred to income statement.

Held to maturity investments are carried at amortised cost using the effective yield method, less any provision for impairment.

Equity securities classified as available for sale are carried at fair values except unlisted equity securities, which are measured at cost after deduction for any impairment.

The Group also enters into purchases or sales of investments under agreements to resell or repurchase substantially identical investments at a certain date in the future at a fixed price. Investments sold under repurchase agreements continue to be recognised in the balance sheet and are measured in accordance with the accounting policy for the asset held in the portfolio, as appropriate.

Details of the Group's securities portfolio is set out below as of 30 June 2011 and 31 December 2010, 2009 and 2008:

	As of 30 June	As of 31 December		
	2011	2010	2009	2008
		<i>(TL, thousands)</i>		
Trading securities.....	556,161	376,591	365,923	396,464
Available for sale securities	7,757,096	5,881,756	2,029,573	1,854,737
Held to maturity securities	12,251,274	12,974,944	13,318,719	12,705,781
Total securities portfolio.....	20,564,531	19,233,291	15,714,215	14,956,982

As of 30 June 2011, the size of the Group's aggregate securities portfolio increased by 7% to TL20,564,531 thousand (U.S.\$12,938,550 thousand) from TL19,233,291 thousand as of 31 December 2010. The Group's securities portfolio increased by 22% to TL19,233,291 thousand as of 31 December 2010 compared to TL15,714,215 thousand as of 31 December 2009, which in turn was an increase of 5% compared to TL14,956,982 thousand as of 31 December 2008. The increase resulted primarily from the Bank's strategy of maintaining the ratio of security to assets at a relatively stable level. In line with the risk management policies of the Group, 60% of the Group's securities portfolio comprised of held to maturity securities as of 30 June 2011 compared to 67% as of 31 December 2010, 85% as of 31 December 2009 and 85% as of 31 December 2008.

The weighted average interest rates for securities by major currencies outstanding at 30 June 2011 and 31 December 2010, 2009 and 2008 based on yearly contractual rates are as follows:

	As of 30 June			As of 31 December								
	2011			2010			2009			2008		
	U.S.\$	EUR	TL	U.S.\$	EUR	TL	U.S.\$	EUR	TL	U.S.\$	EUR	TL
	<i>(%)</i>											
Investment securities												
Available for sale	6.77	5.68	9.11	6.98	5.94	7.85	7.43	7.18	11.73	6.43	7.76	19.63
Held to maturity	6.71	5.02	9.07	6.76	5.69	10.05	6.80	5.54	11.49	7.36	5.99	20.08

Trading Portfolio

Trading securities include government bonds and treasury bills that are discount and coupon securities issued by the Turkish treasury, as well as open ended mutual funds incorporated in Turkey, derivatives and also equity securities that are either listed or unlisted.

The following table sets out a breakdown of the trading portfolio of the Group as of the dates indicated:

	As of 30 June	As of 31 December		
	2011	2010	2009	2008
		<i>(TL, thousands)</i>		
Government bonds and treasury bills	471,869	256,818	207,224	193,854
Government bonds and treasury bills sold under repo	—	43,734	66,654	106,454
Equity shares	14,795	6,448	38,963	17,587
Derivative financial instruments	376,748	693,524	617,704	433,651
Other debt securities	69,498	69,591	53,082	78,569
Total financial assets held for trading	932,910	1,070,115	983,627	830,115

As of 30 June 2011, the size of the Group's trading portfolio decreased by 13% to TL932,910 thousand (U.S.\$586,957 thousand) from TL1,070,115 thousand as of 31 December 2010, compared to TL983,627 thousand as of 31 December 2009 and TL830,115 thousand as of 31 December 2008. The recent decrease was mainly attributable to the decrease in derivative financial instruments as a result of market conditions.

Available for Sale Portfolio

Available for sale assets are financial assets that are not held for trading purposes, nor intended by the Group to be held to maturity. The portfolio of securities available for sale consists of government bonds, treasury bills and Eurobonds that are discount and coupon securities issued by the Turkish treasury, as well as open ended mutual funds incorporated in Turkey, credit linked notes, constant maturity swaps, foreign government and corporate bonds and also equity securities that are either listed or unlisted.

The following table sets out certain information relating to the portfolio of available for sale securities of the Group as of 30 June 2011 and 31 December 2010, 2009 and 2008:

	As of 30 June	As of 31 December		
	2011	2010	2009	2008
		<i>(TL, thousands)</i>		
Government bonds and treasury bills	2,427,801	3,402,886	960,334	893,589
Eurobonds	994,087	869,249	919,003	641,995
Securities sold under repo	2,637,959	212,492	17,585	18,639
Other	1,674,524	1,374,753	105,721	258,251
Equity shares ⁽¹⁾	22,725	22,376	26,930	42,263
Total available for sale portfolio	7,757,096	5,881,756	2,029,573	1,854,737

(1) Equity shares include mainly listed and unlisted equity shares such as SIE settlement and Custody Bank Inc. and Kredi Kayit Buros A.S.

As of 30 June 2011, the size of the available for sale securities portfolio increased by 32% to TL7,757,096 thousand (U.S.\$4,880,518 thousand) from TL5,881,756 thousand as of 31 December 2010, which represented in turn an increase of 190% from TL2,029,573 thousand as of 31 December 2009 which represented an increase of 9.4% from TL1,854,737 thousand as of 31 December 2008. The substantial increase in the size of the available for sale portfolio was due to investment in debt securities to provide liquidity flexibility. Over the same period, the size of total securities decreased from 21.5% as of 31 December 2008 to 19.4% of total assets as of 30 June 2011.

Held to maturity Securities

Held to maturity securities are financial assets with fixed or determinable payments and fixed maturity that the Group intends and has the ability to hold to maturity. These include certain debt investments. The Group cannot classify any financial asset as held to maturity if it has, during the current financial year or during two preceding financial years, sold or transferred held to maturity investments before maturity.

The held to maturity securities portfolio of the Group consists of government bonds, treasury bills and Eurobonds that are discount and coupon securities issued by the Turkish treasury and foreign government bonds.

The following table sets out certain information relating to the Group's portfolio of held to maturity securities as of 30 June 2011 and 31 December 2010, 2009 and 2008:

	As of 30 June	As of 31 December		
	2011	2010	2009	2008
		<i>(TL, thousands)</i>		
Government bonds and treasury bills	1,493,510	5,248,357	6,830,558	6,192,275
Eurobonds	2,873,647	3,992,525	4,960,654	5,718,643
Securities sold under repo	7,729,066	3,634,171	1,375,465	744,962
Foreign government bonds.....	155,051	99,891	152,042	49,901
Total held to maturity securities.....	12,251,274	12,974,944	13,318,719	12,705,781

As of 30 June 2011, the size of the held to maturity portfolio decreased by 6% to TL12,251,274 thousand (U.S.\$7,708,112 thousand) from TL12,974,944 thousand as of 31 December 2010, compared to a decrease of 3% to TL13,318,719 thousand as of 31 December 2009 which represented an increase of 5% from TL12,705,781 thousand as of 31 December 2008.

Maturities of Securities

The following tables set out the remaining maturities of the Group's securities based upon the original term to maturity (showing lifetime cash flows, which as a result are greater than the balance sheet amounts) as of 31 December 2010, 2009 and 2008:

As of 31 December 2010						
	Demand and up to 3 months	3 months 1 year	1 year 5 years	Over 5 years	Term not specified	Total
			<i>(TL, thousands)</i>			
Trading ⁽¹⁾	115,432	28,530	150,576	168,776	—	463,314
Available for sale.....	331,903	1,312,980	3,002,715	3,108,529	17,562	7,773,689
Held to maturity.....	1,967,814	900,511	5,870,531	10,605,668	—	19,344,524
As of 31 December 2009						
	Demand and up to 3 months	3 months 1 year	1 year 5 years	Over 5 years	Term not specified	Total
			<i>(TL, thousands)</i>			
Trading ⁽¹⁾	645,529	85,524	189,909	42,829	38,963	1,002,754
Available for sale.....	251,736	368,788	757,513	1,170,286	4,729	2,553,052
Held to maturity.....	802,590	947,217	7,208,218	7,934,231	—	16,892,256

As of 31 December 2008

	Demand and up to 3 months	3 months 1 year	1 year 5 years	Over 5 years	Term not specified	Total
			<i>(TL, thousands)</i>			
Trading ⁽¹⁾	173,557	402,326	187,748	142,669	17,453	923,753
Available for sale.....	256,225	268,793	973,250	1,057,705	102,427	2,658,400
Held to maturity.....	713,828	812,452	7,235,759	7,970,984	—	16,733,023

(1) Including derivative financial assets.

Currency breakdown of securities portfolio

The following tables set out the currencies of the Group's securities portfolio:

As of 30 June 2011

	U.S.\$	Euro	Other	Total FC	TL	Total
			<i>(TL, thousands)</i>			
Trading ⁽¹⁾	77,069	22,427	1,168	100,664	832,246	932,910
Available for sale.....	1,115,427	296,415	66,306	1,478,148	6,278,948	7,757,096
Held to maturity.....	7,594,465	624,294	—	8,218,759	4,032,515	12,251,274

As of 31 December 2010

	U.S.\$	Euro	Other	Total FC	TL	Total
			<i>(TL, thousands)</i>			
Trading ⁽¹⁾	59,854	65,840	6,250	131,944	938,171	1,070,115
Available for sale.....	1,323,106	76,327	53,680	1,453,113	4,428,643	5,881,756
Held to maturity.....	6,880,673	774,441	—	7,655,114	5,319,830	12,974,944

As of 31 December 2009

	U.S.\$	Euro	Other	Total FC	TL	Total
			<i>(TL, thousands)</i>			
Trading ⁽¹⁾	44,227	65,365	—	109,592	874,035	983,627
Available for sale.....	937,685	70,587	81,434	1,089,706	939,867	2,029,573
Held to-maturity.....	5,986,127	1,275,991	504	7,262,622	6,056,097	13,318,719

As of 31 December 2008

	U.S.\$	Euro	Other	Total FC	TL	Total
			<i>(TL, thousands)</i>			
Trading ⁽¹⁾	115,548	82,541	—	198,089	632,026	830,115
Available for sale.....	804,572	87,198	137,463	1,029,233	825,504	1,854,737
Held to maturity.....	5,655,879	1,162,793	4,042	6,822,714	5,883,067	12,705,781

(1) Including derivative financial assets.

Goodwill

Goodwill is reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred. There was no impairment to goodwill identified as of 30 June 2011 and 31 December 2010, 2009 or 2008.

Property and Equipment

The following table sets out movements in the Group's property, plant and equipment:

	As of 30 June	As of 31 December		
	2011	2010	2009	2008
		<i>(TL, thousands)</i>		
At 1 January	1,163,079	1,156,183	1,215,588	1,148,731
Additions	42,269	144,172	122,275	189,967
Disposals	(6,541)	(47,880)	(39,876)	(63,618)
Transfers	(149)	—	281	30,525
Depreciation	(75,349)	(142,667)	(145,629)	(126,239)
Recoveries	—	—	—	36,826
Impairment	—	52,942	3,888	(1,841)
Translation difference	1,815	330	(344)	1,237
At 31 December⁽¹⁾	1,125,124	1,163,080	1,156,183	1,215,588

(1) Except in relation to 2011 where the figure is as of 30 June.

Other Assets

The following table sets out the Group's other assets:

	As of 30 June	As of 31 December		
	2011	2010	2009	2008
		<i>(TL, thousands)</i>		
Collaterals given	522,385	497,601	215,881	130,584
Gold stocks	239,230	249,772	188,796	74,524
Due from insurance policyholders	234,228	194,680	157,394	158,656
Prepaid expenses	158,668	124,094	132,298	167,845
Asset held for resale, net	89,184	88,020	97,048	95,149
Payments for credit card settlement	88,905	67,831	65,113	44,082
Advances given	105,434	67,382	17,689	26,155
Accounts receivable	15,536	80,379	6,776	17,165
Other	315,003	244,136	268,892	275,344
	1,768,573	1,613,895	1,149,887	989,504

Sources of Funding

As of 30 June 2011, the Group's major sources of funds for its lending and investment activities were deposits from customers, which accounted for approximately 68% of total funding and, to a lesser extent, funds borrowed, which accounted for 17% of total funding, and deposits from banks, which accounted for 12% of total funding, compared to 74%, 17% and 7%, respectively, as of 31 December 2010, 77%, 16% and 4%, respectively, as of 31 December 2009 and 77%, 17% and 2%, respectively, as of 31 December 2008.

The following table sets out the Group's sources of funding as of the dates indicated:

	As of 30 June		As of 31 December					
	2011	%	2010	%	2009	%	2008	%
	<i>(TL, thousands, except %)</i>							
Customer deposits.....	57,654,065	68	53,490,950	74	42,181,386	77	43,725,847	77
Deposits from banks.....	10,389,667	12	4,935,470	7	2,432,179	4	1,082,841	2
Funds borrowed.....	14,777,097	17	12,614,942	17	8,631,136	16	9,652,438	17
Debt securities in issue.....	2,247,074	3	1,394,904	2	1,744,478	3	1,966,298	3
Total.....	85,067,903	100	72,436,266	100	54,989,179	100	56,427,424	100

The availability of such funds is influenced by factors such as prevailing interest rates, market conditions and the level of competition prevailing.

Deposits from Customers

Deposits consist of customer demand and time deposits. Customer current accounts generally bear no interest and can be withdrawn upon demand. For time deposits, different interest rates are paid on the various types of account offered by the Group. Deposits from customers comprise local deposits, foreign currency deposits, savings, and commercial deposits.

The following table sets out a breakdown of the Group's deposits from customers based on IFRS figures from customers by composition:

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As of 30 June 2011, the weighted average interest rate on Turkish Lira-denominated time deposit accounts offered by the Group to corporate customers was 9.39%, while the interest rates paid on euro and U.S. dollar-denominated time deposits were 3.39% and 4.26%, respectively.

The following table sets out the currency basis analysis of the deposits from customers (including interest expense accruals for all deposits) as of the dates indicated:

	As of 30 June	As of 31 December		
	2011	2010	2009	2008
		<i>(TL, thousands)</i>		
TL	32,524,651	31,790,782	22,942,642	24,730,019
U.S.\$	17,182,870	13,874,813	11,504,089	12,343,831
€	6,960,595	7,076,309	6,994,241	6,050,331
Other	985,949	749,046	740,414	601,666
Total	57,654,065	53,490,950	42,181,386	43,725,847

The following table sets out a maturity analysis of deposits including deposits from banks made with the Group by amount (showing lifetime cash flows, which as a result are greater than the balance sheet amounts) as of the dates indicated:

	As of 31 December		
	2010	2009	2008
	<i>(TL, thousands)</i>		
Demand and up to 3 months	56,206,614	41,921,977	43,111,249
From 3 to 12 months	1,573,841	2,156,110	1,431,396
Over 12 months	1,053,307	779,512	667,022
Total	58,833,762	44,857,599	45,209,667

Deposits from Banks

Deposits from banks comprise demand and term deposits. The Group's deposits from banks increased by 110.5% to TL10,389,667 thousand (U.S.\$6,536,848 thousand) as of 30 June 2011 from TL4,935,470 thousand as of 31 December 2010, driven mainly by an increase in repurchase agreements from banks, compared to an increase of 103% from TL2,432,179 thousand as of 31 December 2009 and 125% from TL1,082,841 thousand as of 31 December 2008.

Repurchase Obligations

The Group's obligations arising from agreements for the repurchase or resale of government securities and Eurobonds amounted to TL9,358,120 thousand (U.S.\$5,887,831 thousand) as of 30 June 2011, which represented an increase of 191% from TL3,219,418 thousand as of 31 December 2010, which in turn represented an increase of 160% from TL1,238,681 thousand as of 31 December 2009 which represented a further increase of 58% from TL785,427 thousand as of 31 December 2008. These obligations represented 10% of consolidated total liabilities as of 30 June 2011 compared to 4% as of 31 December 2010 and a negligible amount as of 31 December 2009 and 2008. The above increases were the result of the Group's policy of diversifying its funding sources and providing short-term liquidity.

Other Borrowed Funds

	As of 30 June	As of 31 December		
	2011	2010	2009	2008
	<i>(TL, thousands)</i>			
Foreign institutions and banks				
Syndication loans.....	4,392,823	3,385,043	2,070,306	1,479,804
Subordinated debt	2,425,266	2,110,274	2,224,023	2,220,601
Other.....	6,217,610	5,248,988	3,212,281	4,800,994
Total foreign	13,035,699	10,744,305	7,506,610	8,501,399
Domestic banks	1,101,868	1,439,039	1,077,640	883,428
Interbank money market.....	639,530	431,598	46,886	267,611
Total domestic.....	1,741,398	1,870,637	1,124,526	1,151,039
	14,777,097	12,614,942	8,631,136	9,652,438
Current	9,381,300	7,761,132	5,012,536	5,701,524
Non-current	5,395,797	4,853,810	3,618,600	3,950,914

During the first half of 2011, the Bank renewed a syndicated loan facility from 47 international banks, and increased its amount by 45% to U.S.\$1,450 million. The loan is comprised of two tranches of U.S.\$300.5 million (TL478 million) and EUR795 million (TL1,827 million) with total cost of LIBOR+1.1% and EURIBOR+1.1%, respectively (an improvement of 40 basis points compared to 2010), which matures on 19 April 2012, under a dual-tranche multi-currency term loan facility agreement dated 19 April 2011.

On 11 October 2010, the Bank signed a long-term loan agreement with UniCredit Luxembourg S.A. in the amount of U.S.\$750 million funded by an issue of U.S.\$750 million loan participation notes due 2015. The issue was lead managed by UniCredit Bank AG, Citibank Global Markets Limited and Deutsche Bank AG London Branch. The transaction was priced at a yield of 5.1875%. The loan has a maturity for five years with semi-annual interest payments and a lump sum principal payment at maturity.

On 5 October 2010, the Bank obtained a syndication loan from 48 international banks, comprised of two tranches in the amount of U.S.\$342.5 million (TL518 million) and EUR670 million (TL1,344 million) with total cost of LIBOR+1.3% and EURIBOR+1.3%, respectively, which matures on 29 September 2011, under a dual tranche multi currency term loan facility agreement dated 29 September 2010. This loan facility replaced a U.S.\$985 million syndication loan that was signed in September 2009.

In 2008, the Bank borrowed EUR100 million under a facility with the European Investment Bank with a ten year maturity. In 2009, the Bank borrowed an additional EUR200 million from European Investment Bank with a 12 year maturity and in August 2010, the Bank borrowed an additional EUR50 million in a second tranche under the same terms.

In 2007, the Bank borrowed EUR100 million five year maturity loan from Deutsche Bank AG, London Branch under the SACE guarantee with an all-in interest rate of Euribor +1.20% per annum.

The Bank obtained a subordinated loan on 25 June 2007 in the amount of EUR200 million, with a ten year maturity and repayment option at the end of five years. The interest rate is determined as EURIBOR+1.85% for the first five years. The loan was obtained from Citibank, N.A., London Branch with UniCredito Italiano S.p.A. guaranteeing the Bank's obligation thereunder.

On 31 March 2006, the Group obtained a subordinated loan amounting to EUR500 million. The loan has a ten year maturity with a repayment option at the end of five years. The interest rate is calculated as EURIBOR+2% for the first five years. The loan was advanced by Merrill Lynch Capital Corporation with UniCredito Italiano S.p.A. guaranteeing the Bank's obligation thereunder. In addition, the subordinated loan obtained by Koçbank on 28 April 2006 amounting to EUR350 million, with a ten year maturity and repayment option at the end of five years has been transferred to the Group. The interest rate is calculated as EURIBOR+2.25% for the first five years. The loan

was advanced by Goldman Sachs International Bank with UniCredito Italiano S.p.A. guaranteeing the Bank's obligation thereunder.

With written approvals of the BRSA dated 3 April 2006, 2 May 2006 and 19 June 2007, the subordinated loans listed above were approved as subordinated loans and can be taken into consideration as supplementary capital when calculating the Bank's capital adequacy ratios.

Funds borrowed from domestic banks include funds obtained from Industrial Development Bank of Turkey (TSKB Türkiye Sınai Kalkınma Bankası A.Ş) in the context of Export Financing and International Loans ("EFIL") sourced by World Bank to finance certain export loans provided to customers in line with the prevailing regulations.

The following table sets out the currency breakdown of the Group's outstanding principal borrowings as of the dates indicated:

	As of 30 June	As of 31 December		
	2011	2010	2009	2008
		<i>(TL, thousands)</i>		
TL.....	2,097,940	2,423,004	1,417,159	1,610,353
U.S.\$.....	4,035,347	3,355,373	1,512,248	2,974,763
€	8,552,957	6,778,604	5,658,712	5,050,085
Other.....	90,853	57,961	43,017	17,237
Total	14,777,097	12,614,942	8,631,136	9,652,438

The following table sets out the maturity profile of the Group's borrowings over expected cash flows as of the dates indicated (showing lifetime cash flows, which as a result are greater than the balance sheet amounts):

	As of 31 December		
	2010	2009	2008
	<i>(TL, thousands)</i>		
Within 1 year.....	8,102,816	5,379,154	6,181,382
1 to 5 years.....	3,079,078	1,970,505	2,469,799
Over five years.....	2,661,837	2,122,797	2,728,494
Total.....	13,843,731	9,472,456	11,379,675

The Group has entered into a number of Turkish Lira/Turkish Lira and foreign currency financings with banks and other financial institutions, which have an average maturity of 12 months.

As of 30 June 2011, the Group had outstanding borrowings of TL14,777,097 thousand.

Debt Securities in Issue

	As of 30 June	As of 31 December				As of 30 June	As of 31 December			
							Average interest rate ⁽¹⁾			
	2011	2010	2009	2008		2011	2010	2009	2008	
		(TL, thousands)					(%)			
U.S.\$175,000,000 Series 2006 A										
Floating Rate Notes Due 2014.....	194,066	211,335	257,266	258,967		0.51	0.53	0.51	2.42	
U.S.\$200,000,000 Series 2006 B										
Floating Rate Notes Due 2014.....	55,596	60,261	294,019	295,962		0.48	0.50	0.48	2.39	
U.S.\$114,000,000 Series 2006 C										
Floating Rate Notes Due 2013.....	103,444	117,728	167,569	170,155		0.61	0.63	0.61	2.52	
€279,846,000 Series 2006 D Floating										
Rate Notes Due 2014	84,519	84,223	590,539	629,848		2.03	1.26	0.93	4.34	
€67,215,000 Series 2007 A Floating										
Rate Notes Due 2015	48,243	47,673	141,833	241,430		1.61	1.22	0.89	4.3	
U.S.\$199,000,000 of Series 2007 B										
Floating Rate Notes Due 2015.....	94,301	101,361	292,534	369,936		0.45	0.47	0.45	2.36	
USD112,080,000 of Series 2010 A										
Floating Rate Notes Due 2015.....	156,023	169,111	—	—		0.89	0.92	—	—	
USD7,500,000 of Series 2010 B										
Floating Rate Notes Due 2015.....	9,943	11,316	—	—		0.90	0.92	—	—	
€179,440,811 of Series 2010 C Floating										
Rate Notes Due 2015	361,334	359,154	—	—		2.07	2.03	—	—	
€29,659,900 of Series 2010 D Floating										
Rate Notes Due 2015	60,073	59,362	—	—		1.68	1.64	—	—	
USD102,000,000 of Series 2010 E										
Floating Rate Notes Due 2015.....	143,181	153,895	—	—		0.85	0.88	—	—	
Other	1,216	19,485	718	—		—	—	—	—	
TL1,000,000 domestic bonds	935,135	—	—	—		8.86	—	—	—	
	2,247,074	1,394,904	1,744,478	1,966,298						
Current	1,318,781	348,969	337,673	9,053						
Non-current.....	928,293	1,045,935	1,406,805	1,957,245						
	2,247,074	1,394,904	1,744,478	1,966,298						

(1) The premium rates paid to monoline companies are excluded from the interest rates.

The Bank registered its programme for domestic bond issues of up to TL3.5 billion in aggregate with the CMB in May 2011, under which bond issues can be undertaken in multiple tranches within a term of one year as of the date of registration. Within the framework of this TL3.5 billion limit, the Bank issued three tranches of local currency discounted bonds in the domestic capital markets targeted at retail and institutional investors in Turkey. On 13 June 2011, the Bank issued local currency discounted bonds in an aggregate amount of TL1.0 billion with a maturity of 175 days and a compounded cost of 8.86% at the date of issuance. On 10 October 2011, the Bank issued local currency discounted bonds in an aggregate amount of TL150 million with a maturity of 368 days and a compounded cost of 9.08% at the date of issuance. On 5 December 2011, the date of maturity of the 13 June 2011 issue, the Bank redeemed these bonds and on the same date issued local currency discounted bonds in an aggregate amount of TL1.0 billion with a maturity of 161 days and a compounded cost of 10.92% at the date of issuance, following bookbinding on 29 and 30 November and 1 and 2 December 2011. On 26 January 2012, the Bank applied to the CMB for the issuance of discounted bonds in an aggregate amount of TL400 million with a maturity of 161 days and additional bonds in an aggregate amount of TL150 million with a maturity of 368 days. These bonds can be re-purchased (upon investors' request) and re-sold according to applicable legislation.

In December 2006, the Group finalised a diversified payment rights securitisation transaction of U.S.\$800 million and EUR300 million by securitising its foreign currency denominated present and future remittances created via payment orders. The deal securitises the Group's payment orders created via SWIFT MT 103 or similar payment orders accepted as derived primarily from the Group's trade finance and other retail and corporate businesses and paid through foreign depository banks.

Notes issued under the diversified payment rights ("DPR") programme are issued by Yapı Kredi Diversified Payment Rights Finance Company Ltd. ("SPC"), an exempted limited liability company incorporated under the laws of the Cayman Islands. The Group acts as the originator of the DPR and as the servicer. There were four tranches, which were insured by the monoline companies namely,

Assured Guaranty Corporation, MBIA Insurance Corporation, Radian Asset Assurance Inc., and Ambac Assurance Corporation. The notes were offered for sale outside the United States in reliance upon Regulation S under the Securities Act. The Series 2006-D Notes are listed on the official list of the Luxembourg Stock Exchange. On 14 December 2006, the SPC also entered into a private placement of U.S.\$310,000,000 Series 2006-E Floating Rate Notes due 2011, which rank *pari passu* with the Series 2006-D Notes.

The Group had repaid U.S.\$310 million of the credit as of 1 March 2007 when it issued an additional U.S.\$400 million of notes under the DPR programme. The additional issuance was composed of two tranches, one for EUR115 million and one for U.S.\$250 million, insured by Financial Guaranty Insurance Company (FGIC) and XL Capital Assurance Inc., respectively.

On 26 May 2010, the Bank mandated Standard Bank Plc and UniCredit Bank AG London Branch for an exchange offer of these monoline wrapped notes with unwrapped notes. Investors were given the option to exchange U.S.\$600 million of original monoline wrapped notes (volume at face value, U.S.\$ equivalent) with unwrapped notes having the same maturity but with a higher coupon. On 26 August 2010, the exchange offer was finalised with the participation of 23 investors. The current outstanding amounts on the exchanged notes are for Series 2010-A, U.S.\$ 98,070,000, for Series 2010-B, U.S.\$6,250,000, for Series 2010-C, €157,010,700, for Series 2010-D, €26,170,500 and for Series 2010-E, \$90,000,000.

Contingencies and Commitments

The Group enters into certain financial instruments with off-balance sheet risk in the normal course of business in order to meet the needs of its customers. These instruments, which include letters of guarantee, acceptance credits, import letters of credit and other commitments and liabilities, involve varying degrees of credit risk and are not reflected in the balance sheet. As of 30 June 2011, the Group had issued letters of credit amounting to TL5,223,070 thousand (U.S.\$3,286,190 thousand), letters of guarantee amounting to TL16,802,131 thousand (U.S.\$10,571,367 thousand), acceptance credits amounting to TL157,481 thousand (U.S.\$99,082 thousand) and other commitments of TL1,816,209 thousand (U.S.\$1,142,701 thousand), compared to TL3,999,873 thousand, TL14,947,463 thousand, TL165,797 thousand and TL579,420 thousand, respectively, as of 31 December 2010, TL2,720,777 thousand, TL13,101,133 thousand, TL151,669 thousand and TL399,410 thousand, respectively, as of 31 December 2009 and TL2,724,092 thousand, TL13,152,297 thousand, TL211,367 thousand and TL444,717 thousand, respectively, as of 31 December 2008. Maximum exposure to credit losses for letters of guarantee and acceptance credits and import letters of credit is represented by the contractual amount of these transactions. Since many of the commitments are expected to expire without being drawn upon, the total amount does not necessarily represent future cash requirements. The ratio of non-cash commitments to cash loans was 35.5% as of 30 June 2011 and 34.1%, 38.9% and 38.9% as of 31 December 2010, 2009 and 2008, respectively.

The following table sets out certain details on commitments and contingencies (gross) on a consolidated basis as of the dates indicated:

	As of 30 June	As of 31 December		
	2011	2010	2009	2008
		(TL, thousands)		
Letters of credit	5,223,070	3,999,873	2,720,777	2,724,092
Letters of guarantee.....	16,802,131	14,947,463	13,101,133	13,152,297
Acceptance credits	157,481	165,797	151,669	211,367
Other commitments	1,816,209	579,420	399,410	444,717
Total commitments and contingencies.....	23,998,891	19,692,553	16,372,989	16,532,473

Letters of credit are primarily issued to finance transactions without obligation to pay cash. As of 30 June 2011, the volume of such letters amounted to TL5,223,070 thousand (U.S.\$3,286,190 thousand), compared to TL3,999,873 thousand as of 31 December 2010, TL2,720,777 thousand as of 31 December 2009 and TL2,724,092 thousand as of 31 December 2008. The increase was mainly driven by the growth in business sectors as a result of the recovering economic environment.

Letters of guarantees are mainly issued to construction companies to be used as performance bonds. As of 30 June 2011, the volume of such letters amounted to TL16,802,131 thousand (U.S.\$10,571,367 thousand), compared to TL14,947,463 thousand as of 31 December 2010, TL13,101,133 thousand as of 31 December 2009 and TL13,152,297 thousand as of 31 December 2008.

Contractual Obligations

In the course of its business, the Group enters into various contractual arrangements that require it to make payments of various amounts over time. As a result of the relative short maturity of deposits in Turkey generally, the Group uses these types of financings to extend the maturity of its funding sources.

As of 30 June 2011, the Group had outstanding syndicated loans of TL4,392,823 thousand, compared to TL3,385,043 thousand, TL2,070,306 thousand and TL1,479,804 thousand as of 31 December 2010, 2009 and 2008, respectively. In addition, the Group had subordinated debt amounting to TL2,425,266 thousand as of 30 June 2011, compared to TL2,110,274 thousand, TL2,224,023 thousand and TL2,220,601 thousand as of 31 December 2010, 2009 and 2008, respectively.

Capital Adequacy

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

A bank’s capital adequacy ratio is calculated by taking the aggregate of its Tier I capital (which comprises paid in capital, reserves, retained earnings and profit (or loss, if any) for the current periods), its Tier II capital (which comprises general loan and free reserves, revaluation funds and subordinated loans obtained) and its Tier III capital (which comprises certain qualified subordinated loans in accordance with BIS guidelines) *minus* deductions (which comprise participations to financial institutions, negative differences between fair and book values of subsidiaries, subordinated loans extended, goodwill and capitalised costs), and dividing this aggregate by risk-weighted assets, which reflect both credit risk and market risk. In accordance with these guidelines, banks must maintain a total capital adequacy ratio of a minimum of 8%. By taking into account banks’ internal systems, assets and financial structure, the BRSA is authorised to (i) increase the minimum capital adequacy ratio, (ii) set different ratios for each bank, and (iii) revise the risk weighting of assets that are based upon participation accounts. If a bank’s capital adequacy ratio is below the ratio set by the BRSA, certain restrictions are imposed.

The following table sets out information on the Group’s consolidated capital and its capital adequacy ratios as of 30 June 2011 and 31 December 2010, 2009 and 2008, all computed based upon BRSA guidelines.

	As of 30 June	As of 31 December		
	2011	2010	2009	2008
		<i>(TL, thousands)</i>		
Paid in Capital.....	4,347,051	4,347,051	4,347,051	4,347,051
Legal Reserves	266,973	163,959	96,220	44,089
Profit	1,098,459	2,248,031	1,542,948	1,261,395
Tier I Capital (I).....	10,539,504	9,276,491	7,076,126	5,567,893
Tier II Capital (II).....	2,751,436	3,037,830	3,010,838	2,847,207
Deductions (III).....	417,229	86,551	103,614	87,676
Own Funds (I+II III)	12,873,711	12,227,770	9,983,350	8,327,424
Risk Weighted Assets (including market risk)	93,575,360	79,249,650	60,445,665	58,484,021
Capital Ratios (%):				
Tier I Capital/Risk Weighted Assets	11.26	11.71	11.71	9.52
Own Funds/Risk Weighted Assets	13.76	15.43	16.52	14.24

The Bank and its individually regulated operations were in compliance with all the above indicated capital adequacy requirements throughout the above indicated periods.

According to the calendar set forth by the BRSA, the Basel II standard approach will take effect in Turkey in the second half of 2012, following a one year period during which it runs in parallel with Basel I. The Group expects to implement the requirements of the Basel II in line with the timetable set by the BRSA, and is currently investigating the potential impact adoption of Basel II will have on it. The Bank expects the potential impact of Basel II implementation to be approximately 150 basis points, which is consistent with the expected impact across the Turkish banking sector of approximately 140 basis points, according to the BRSA quantitative impact study as of March 2011.

Critical Accounting Policies

The Group's accounting policies used in the preparation of financial statements in accordance with IFRS are integral to understanding the results of operations and financial condition presented in the Annual IFRS Financial Statements and the notes thereto. The Group's significant accounting policies are described in Note 2 to the Annual IFRS Financial Statements and significant updates to those accounting policies for periods subsequent to 31 December 2010 are described in Note 2 to the Interim IFRS Financial Statements. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the year. On an ongoing basis, management evaluates its estimates and judgments, including those related to allowance for losses, investments, income taxes, financing operations and contingencies, litigation and arbitration. Management bases its estimates and judgment upon historical experience and various other factors that it considers to be reasonable under the circumstances. Actual results may differ from estimates under different assumptions or conditions.

Management believes that the following significant accounting policies require critical judgments or estimates or involve a degree of complexity in application that affects the Group's financial condition and results of operations.

Financial Assets at Fair Value through Profit or Loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. Financial assets and financial liabilities are designated at fair value through profit or loss, when doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for such as loans and advances to customers or banks and debt securities in issue.

Gains and losses arising from changes in fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in "net trading, hedging and fair value income and loss".

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term, or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Financial assets at fair value through profit or loss are initially recognised and subsequently re measured at fair value. All related realised and unrealised fair value gains and losses are included in net trading income. Interest earned whilst holding trading securities is reported as interest income.

All purchases and sales of trading securities that require delivery within the timeframe established by regulation or market convention ("regular way" purchases and sales) are recognised at the settlement date, which is the date that the asset is delivered to/by the Group. Any change in fair value of the trading assets to be received during the period between the trade date and the settlement date is recognised in profit or loss.

Investment Securities

Investment securities are classified into the following two categories: held to maturity and available for sale assets. Investment securities with fixed maturity, where management has both the intent and the ability to hold to maturity are classified as held to maturity. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, or client's servicing activity are classified as available for sale. Management determines the appropriate classification of its investments at the time of the purchase.

Investment securities are initially recognised at fair value which is the cash consideration including transaction costs. Available for sale financial assets are subsequently re measured at fair value. Gains and losses arising from changes in the fair value of securities classified as available for sale are recognised in other comprehensive income in the “available for sale revaluation reserve” included in other reserves, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is transferred to the income statement.

Held to maturity investments are carried at amortised cost using the effective yield method, less any provision for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate.

Equity securities classified as available for sale are carried at fair values except unlisted equity securities, which are measured at cost after deduction for any impairment.

Interest earned whilst holding investment securities is reported as interest income. Dividends earned whilst holding available for sale financial investments are recognised in the statement of income when the right of the payment has been established.

All purchases and sales of investment securities are recognised at the settlement date, which is the date the asset is delivered to/by the Group. Any change in fair value of the available for sale securities to be received during the period between the trade date and the settlement date is recognised in other comprehensive income.

Unsettled transactions are recorded as off-balance sheet commitments until the settlement date.

Sale and Repurchase Agreements

Securities sold subject to linked repurchase agreements (“**repos**”) are not derecognised from the statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within deposits from banks and customer deposits, reflecting the transaction’s economic substance as a loan to the Group. The difference between the sale and repurchase price is treated as interest expense and amortised over the life of repo agreements using the effective interest method.

Conversely securities purchased under agreements to resell (“**reverse repo**”) are not recognised in the statement of financial position. The consideration paid, including accrued interest, is recorded as loans and advances to banks in the statement of financial position. The difference between the purchase and resale prices is recorded in “interest income” and is accrued over the life of the agreement using the effective interest method.

Loans and Advances to Customers

Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost less allowance for impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The losses arising from impairment are recognised in the income statement in “impairment losses on loans and credit related commitments”.

The Group holds appropriate collateral for each loan according to its specified risk and the relevant BRSA communiqué. The collateral strategy differentiates between collateral types on the basis of customers’ ratings and loan terms. In general, the types of collaterals are cash collaterals, mortgages, guarantees, promissory notes, securities issued by the Turkish Treasury Under secretariat and Central Bank and pledge on assets.

Derivative Financial Instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. The fair values of derivatives financial instruments that are quoted in active markets are determined from quoted market prices in active markets including recent market transactions. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques, including discounted cash flow models. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed. Fair values of derivatives are carried as assets when positive and

as liabilities when negative. The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received). Derivative financial instruments are classified as held for trading.

Certain derivative transactions, even though providing effecting economic hedges under the Group risk management position, do not qualify for hedge accounting under the specific rules in IAS 39, and are therefore treated as derivatives held for trading with fair value gains and losses reported in income statement.

Certain derivatives embedded in other financial instruments, such as credit linked notes (“CLN”), cross maturity swaps (“CMS”), are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the consolidated income statement unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

Embedded derivatives are separated from the host contract and accounted for as a derivative in accordance with IAS 39, if and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss (i.e. a derivative that is embedded in a financial assets or financial liability at fair value through profit or loss is not separated).

If an embedded derivative is separated, the host contract shall be accounted for under IAS 39 if it is a financial instrument, and in accordance with other appropriate standards if it not a financial instrument.

Hedge Accounting

The Group makes use of derivative instruments to manage exposures to interest rate and foreign currency risks, including exposures arising from forecast transactions and firm commitments. In order to manage particular risks, the Group applies hedge accounting for transactions that meet the specified criteria. The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in values of hedged items.

Net Investment Hedge

The effective portion of changes in the fair value the foreign exchange differences of borrowings that are designated and qualify as net investment hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Effective changes in fair value of interest rate swaps and related hedged items are reflected in “net trading, hedging and fair value income”. Any ineffectiveness is also recorded in “net trading, hedging and fair value income”.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

Cash Flow Hedge

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised directly in equity in the ‘Cash flow hedge’ reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in ‘Net trading income’.

When the hedged cash flow affects the statement of income, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the statement of income. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged cash flows are ultimately recognised in the statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of income.

Retirement benefit obligations

(a) Pension benefits transferable to Social Security Institution

Yapı ve Kredi Bankası Anonim Şirketi Mensupları Yardım ve Emekli Sandığı Vakfı (the “Fund”) is a separate legal entity and a foundation recognised by an official decree, providing all qualified YKB employees with pension and post-retirement benefits. This scheme is funded through payments of both the employees and the employer as required by Social Security Institution (“SSI”) Law Numbered 506.

The following table sets forth the amount of contributions by employers and employees as a percentage of employees’ earnings for the periods indicated:

	2010		2009		2008	
	Employer	Employee	Employer	Employee	Employer	Employee
Retirement benefit contributions.....	12	9	12	9	13.5	9
Medical benefit contributions.....	7.5	5	7.5	5	6	5

The Group’s obligation in respect of the Fund has been determined as the value of the payment that would need to be made to SSI to settle the obligation at the balance sheet date in accordance with the Temporary Article 20 of the New Law. The pension disclosures set out in Note 24 therefore reflect the actuarial parameters and results in accordance with the New Law provisions.

The pension benefits transferable to SSI 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 income statement.

(b) Defined contribution plans

The Bank’s subsidiaries in Turkey pay contributions to publicly administered Social Security Institution on a mandatory basis. Foreign subsidiaries contribute to the related government body for the pension scheme of its employees in the country they are domiciled. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

(c) Reserve for employment termination benefits

Provision for employment termination benefits represents the present value of the estimated total provision of the future probable obligation of the Group arising from the retirement of the employees calculated in accordance with the Turkish Labour Law. In accordance with existing social legislation and the Turkish Labour Law, the Group is required to make lump-sum severance payment to each employee whose employment is terminated due to retirement or for reasons other than resignation or misconduct and who has completed at least one year of service. Provision is made for the present value of the severance payment obligations calculated using the projected unit credit method. All actuarial gains and losses are recognised in the consolidated income statement.

Critical Accounting Estimates

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on Management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. These disclosures supplement the commentary significant accounting policies and financial risk management.

Judgements, other than those involving estimations, that have the most significant effect on the amounts recognised in the consolidated financial statements include:

Held to maturity financial assets

Management applies judgement in assessing whether financial assets can be categorised as held to maturity, in particular its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than for certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available for sale. The investments would therefore be measured at fair value rather than amortised cost. If the entire class of held to maturity investments is tainted, the carrying amount would increase by TL766,537 as of 31 December 2010 (compared to an increase of TL663,481 thousand in 2009 and a decrease of TL223,331 thousand in 2008), with a corresponding entry in the fair value reserve in equity.

Finance leases and derecognition of financial assets

Management applies judgement to determine if substantially all of the significant risks and rewards of ownership of financial assets and lease assets are transferred to counterparties, in particular which risks and rewards are the most significant and what constitutes substantially all risks and rewards.

Special Purpose Entities

Judgement is also required to determine whether the substances of the relationship between the Group and a special purpose entity indicates that the special purpose entity is controlled by the Group.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of available for sale equity investments

The Group reviews its debt securities classified as available for sale investments at each statement of financial position, in order to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances.

The Group determines that available for sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement the Group evaluates, among other factors, the volatility in share price and duration and extent to which the fair value of an investment is less than its cost. In addition, objective evidence of impairment may be deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financings cash flows. Had all the declines in fair value below cost been considered significant or prolonged, the Group would not suffer any additional loss, being the transfer of the total debt balance in the fair value reserve to profit or loss.

Impairment losses on loans and advances

The methodology and assumptions used for estimating both the amount and timing of future cash flows from a portfolio of loans are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the present value of estimated cash flows differ by +/- 5% the provision would be estimated TL85,398 thousand (compared to TL124,489 thousand in 2009 and TL58,239 thousand in 2008) higher or lower. The Group calculated IBNR provision with intrinsic elements such as loss detection period and expert views. As a result of changes in the internal composition of the loan portfolio in the current year, the Bank revised the collective loan loss provisions by updating the related parameters used with calculation of such provision. As of 31 December 2010, as a result of the revision, TL114 million is recorded as income. Taking into consideration the historical loss experience, the Bank has reassessed the parameters for different segments and as of 30 June 2011, TL106 million is recorded as income.

Fair value of derivatives

Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair

values. Changing the assumptions not supported by observable market data to a reasonably possible alternative would not result in a significantly different profit, income, total assets or total liabilities.

Tax legislation

Turkish tax, currency and customs legislation is subject to varying interpretations as disclosed in Note 22 to the Annual IFRS Financial Statements for the year ended 31 December 2010.

Pension Fund

The Group determines the present value of funded benefit obligations in accordance with New Law by using several critical actuarial assumptions, including the discount rate, mortality rate, and medical costs as disclosed in Note 24 to the Annual IFRS Financial Statements for the year ended 31 December 2010. This approach recognises the obligations of the Group to make payments to SSI in respect of the benefits which will be transferred to SSI rather than an obligation to make benefit payments to individuals.

Deferred income tax asset recognition

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

Goodwill

Recoverable amount of goodwill was estimated based on value in use calculation as disclosed in Note 13 to the Annual IFRS Financial Statements for the year ended 31 December 2010.

Insurance risks

Technical profit in the insurance business of the Group is estimated based on the loss ratio of the business.

SELECTED STATISTICAL AND OTHER INFORMATION

The information below is derived from either (i) the Annual IFRS Financial Statements for the Group (ii) unaudited unconsolidated financial information of the Bank prepared on the basis of BRSA Principles or (iii) the Annual BRSA financial statements for the Group and the Bank. This section should be read in conjunction with the Annual IFRS Financial Statements included elsewhere in this Offering Memorandum, as well as with “Presentation of Financial and Other Information” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

All financial information presented in this Offering Memorandum is presented in accordance with IFRS unless expressly stated to be presented in accordance with BRSA Principles.

Some of the information included in this section of the Offering Memorandum is not extracted from the Bank’s audited financial statements and is unaudited. Such information is derived from the Bank’s internal accounting and management information systems (“MIS”) in accordance with BRSA principles.

INFORMATION PREPARED ACCORDING TO BRSA PRINCIPLES IS NOT DIRECTLY COMPARABLE WITH THE INFORMATION IN THE ANNUAL IFRS FINANCIAL STATEMENTS.

Average Balance Sheet Information and Information on Interest Rates

The following tables set forth the average unconsolidated balances of the Bank’s interest earning assets and interest bearing liabilities, the interest generated from such assets and liabilities and average return rate at each date presented. For purposes of the following tables, except as otherwise indicated, the average is calculated on a daily basis for each representative period and is based on unconsolidated figures derived from the Bank’s internal accounting and MIS systems in accordance with BRSA Principles.

Average Interest Earning Assets, Yields, Margins and Spreads

The following table shows the average unconsolidated interest earning assets, interest bearing liabilities, interest income, interest expense, net interest income, average yield, rates paid, net yield and spread for the Bank for the six months ended 30 June 2011 and each of the years ended 31 December 2010, 2009 and 2008. For purposes of the following table, except as otherwise indicated, the average is calculated on a daily basis for each respective period and is based on bank only figures derived from the Bank's internal accounting and MIS in accordance with BRSA Principles.

	For the six months ended 30 June	For the year ended 31 December		
	2011	2010	2009	2008
	<i>(TL, thousands)</i>			
Average Interest earning Assets⁽¹⁾				
Turkish Lira	42,169,845	34,318,215	28,411,180	26,837,881
Foreign currency.....	32,863,603	26,329,047	25,288,741	21,229,610
Total	75,033,448	60,647,262	53,699,921	48,067,492
Average Interest bearing Liabilities⁽¹⁾				
Turkish Lira	38,779,654	29,390,852	25,993,133	24,841,563
Foreign currency.....	35,361,055	28,605,886	26,706,851	23,904,438
Total	74,140,709	57,996,738	52,699,984	48,746,001
Interest Income				
Turkish Lira	2,465,312	4,514,147	5,229,811	5,583,430
Foreign currency.....	752,621	1,203,858	1,283,683	1,183,208
Total	3,217,933	5,718,005	6,513,494	6,766,638
Interest Expense				
Turkish Lira	1,141,179	2,000,394	2,469,327	3,577,005
Foreign currency.....	420,114	567,438	709,350	935,123
Total	1,561,293	2,567,832	3,178,677	4,512,128
Net Interest Income				
Turkish Lira	1,324,133	2,513,753	2,760,484	2,006,425
Foreign currency.....	332,507	636,420	574,333	248,085
Total	1,656,640	3,150,173	3,334,817	2,254,510
Average Yield⁽²⁾				
Turkish Lira	5.85%	13.15%	18.41%	20.80%
Foreign currency.....	2.29%	4.57%	5.08%	5.57%
Total	4.29%	9.43%	12.13%	14.08%
Average Rates Paid				
Turkish Lira	2.94%	6.81%	9.50%	14.40%
Foreign currency.....	1.19%	1.98%	2.66%	3.91%
Total	2.11%	4.43%	6.03%	9.26%
Average Spread⁽³⁾				
Turkish Lira	2.90%	6.35%	8.91%	6.41%
Foreign currency.....	1.10%	2.59%	2.42%	1.66%
Total	2.18%	5.00%	6.10%	4.82%

(1) Average is based upon daily balances.

(2) Yield represents interest income as a percentage of average interest earning assets.

(3) Spread represents the difference between the average rate of interest earned on interest earning assets and the average rate of interest accrued on interest bearing liabilities.

Securities Portfolio

The Group's securities portfolio comprises of trading securities, held to maturity securities and available for sale securities. Trading securities are acquired or incurred principally for the purpose of selling or repurchasing them in the near term or to form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.

As of 30 June 2011, the size of the Group's aggregate securities portfolio increased by 7% to TL20,564,531 thousand (U.S.\$12,938,550 thousand) from TL19,233,291 thousand as of 31 December 2010. The Group's securities portfolio increased by 22% to TL19,233,291 thousand as of 31 December 2010 compared to TL15,714,215 thousand as of 31 December 2009, which in turn was an increase of 5% compared to TL14,956,982 thousand as of 31 December 2008. The increase resulted primarily from the Bank's strategy of maintaining the ratio of security to assets at a relatively stable level. In line with the risk management policies of the Group, 60% of the Group's securities portfolio comprised of held to maturity securities as of 30 June 2011 compared to 67% as of 31 December 2010, 85% as of 31 December 2009 and 85% as of 31 December 2008.

	As of 30 June	As of 31 December		
	2011	2010	2009	2008
		<i>(TL, thousands)</i>		
Trading securities.....	556,161	376,591	365,923	396,464
Available for sale securities	7,757,096	5,881,756	2,029,573	1,854,737
Held to maturity securities	12,251,274	12,974,944	13,318,719	12,705,781
Total securities portfolio.....	20,564,531	19,233,291	15,714,215	14,956,982

The interest rates on the Group's Turkish Lira and foreign currency denominated securities range between 9.07% to 9.11% and from 5.02% to 6.77% for the period ended 30 June 2011 compared to 7.85% to 10.05% and from 5.69% to 6.98%, respectively, for the year ended 31 December 2010, 11.49% to 11.73% and 5.54% to 7.43%, respectively, for the year ended 31 December 2009, and 19.63% to 20.08% and 5.99% to 7.76%, respectively, for the year ended 31 December 2008.

Trading Portfolio

Trading securities include government bonds and treasury bills that are discount and coupon securities issued by the Turkish treasury, as well as open ended mutual funds incorporated in Turkey, derivatives and also equity securities that are either listed or unlisted.

The following table sets out a breakdown of the trading portfolio of the Group as of the dates indicated:

	As of 30 June	As of 31 December		
	2011	2010	2009	2008
		<i>(TL, thousands)</i>		
Government bonds and treasury bills	471,869	256,818	207,224	193,854
Government bonds and treasury bills sold under repo	—	43,734	66,654	106,454
Equity shares	14,795	6,448	38,963	17,587
Derivative financial instruments	376,748	693,524	617,704	433,651
Other debt securities	69,498	69,591	53,082	78,569
Total financial assets held for trading	932,910	1,070,115	983,627	830,115

As of 30 June 2011, the size of the Group's trading portfolio decreased by 13% to TL932,910 thousand (U.S.\$586,957 thousand) from TL1,070,115 thousand as of 31 December 2010, compared to TL983,627 thousand as of 31 December 2009 and TL830,115 thousand as of 31 December 2008. The recent decrease was mainly attributable to the decrease in derivative financial instruments as a result of changes in interest rates across the market.

Available for Sale Portfolio

Available for sale assets are financial assets that are not held for trading purposes, nor intended by the Group to be held to maturity. The portfolio of securities available for sale consists of government bonds, treasury bills and Eurobonds that are discount and coupon securities issued by the Turkish

treasury, as well as open ended mutual funds incorporated in Turkey, credit linked notes, constant maturity swaps, foreign government and corporate bonds and also equity securities that are either listed or unlisted.

The following table sets out certain information relating to the portfolio of available for sale securities of the Group as of 30 June 2011 and 31 December 2010, 2009 and 2008:

	As of 30 June	As of 31 December		
	2011	2010	2009	2008
		<i>(TL, thousands)</i>		
Government bonds and treasury bills	2,427,801	3,402,886	960,334	893,589
Eurobonds	994,087	869,249	919,003	641,995
Securities sold under repo	2,637,959	212,492	17,585	18,639
Other	1,674,524	1,374,753	105,721	258,251
Equity shares ⁽¹⁾	22,725	22,376	26,930	42,263
Total available for sale portfolio	7,757,096	5,881,756	2,029,573	1,854,737

(1) Equity shares include mainly listed and unlisted equity shares such as SIE settlement and Custody Bank Inc. and Kredi Kayit Burosu A.S.

Held to Maturity Securities

Held to maturity securities are financial assets with fixed or determinable payments and fixed maturity that the Group intends and has the ability to hold to maturity. These include certain debt investments. The Group cannot classify any financial asset as held to maturity if it has, during the current financial year or during two preceding financial years, sold or transferred held to maturity investments before maturity.

The held to maturity securities portfolio of the Group consists of government bonds, treasury bills and Eurobonds that are purchased at discount and coupon securities issued by the Turkish treasury and foreign government bonds.

The following table sets out certain information relating to the Group's portfolio of held to maturity securities as of 30 June 2011 and 31 December 2010, 2009 and 2008:

	As of 30 June	As of 31 December		
	2011	2010	2009	2008
		<i>(TL, thousands)</i>		
Government bonds and treasury bills	1,493,510	5,248,357	6,830,558	6,192,275
Eurobonds	2,873,647	3,992,525	4,960,654	5,718,643
Securities sold under repo	7,729,066	3,634,171	1,375,465	744,962
Foreign government bonds.....	155,051	99,891	152,042	49,901
Total Held to maturity securities	12,251,274	12,974,944	13,318,719	12,705,781

As of 30 June 2011, the size of the held to maturity portfolio decreased by 6% to TL12,251,274 thousand (U.S.\$7,708,112 thousand) from TL12,974,944 thousand as of 31 December 2010, compared to a decrease of 3% to TL13,318,719 thousand as of 31 December 2009 which represented an increase of 5% from TL12,705,781 thousand as of 31 December 2008.

Maturities of Securities

The following tables set out the remaining maturities of the Group's securities based upon the original term to maturity (showing lifetime cash flows, which as a result are greater than the balance sheet amounts) as of 31 December 2010, 2009 and 2008:

As of 31 December 2010						
	Demand and up to 3 months	3 months 1 year	1 year 5 years	Over 5 years	Term not specified	Total
			<i>(TL, thousands)</i>			
Trading ⁽¹⁾	115,432	28,530	150,576	168,776	—	463,314
Available for sale.....	331,903	1,312,980	3,002,715	3,108,529	17,562	7,773,689
Held to maturity.....	1,967,814	900,511	5,870,531	10,605,668	—	19,344,524
As of 31 December 2009						
	Demand and up to 3 months	3 months 1 year	1 year 5 years	Over 5 years	Term not specified	Total
			<i>(TL, thousands)</i>			
Trading ⁽¹⁾	645,529	85,524	189,909	42,829	38,963	1,002,754
Available for sale.....	251,736	368,788	757,513	1,170,286	4,729	2,553,052
Held to maturity.....	802,590	947,217	7,208,218	7,934,231	—	16,892,256
As of 31 December 2008						
	Demand and up to 3 months	3 months 1 year	1 year 5 years	Over 5 years	Term not specified	Total
			<i>(TL, thousands)</i>			
Trading ⁽¹⁾	173,557	402,326	187,748	142,669	17,453	923,753
Available for sale.....	256,225	268,793	973,250	1,057,705	102,427	2,658,400
Held to maturity.....	713,828	812,452	7,235,759	7,970,984	—	16,733,023

(1) Including derivative financial assets.

Currency breakdown of securities portfolio

The following tables set out the currencies of the Group's securities portfolio:

As of 30 June 2011						
	U.S.\$	Euro	Other	Total FC	TL	Total
			<i>(TL, thousands)</i>			
Trading ⁽¹⁾	77,069	22,427	1,168	100,664	832,246	932,910
Available for sale.....	1,115,427	296,415	66,306	1,478,148	6,278,948	7,757,096
Held to maturity.....	7,594,465	624,294	—	8,218,759	4,032,515	12,251,274

As of 31 December 2010						
	U.S.\$	Euro	Other	Total FC	TL	Total
			<i>(TL, thousands)</i>			
Trading ⁽¹⁾	59,854	65,840	6,250	131,944	938,171	1,070,115
Available for sale.....	1,323,106	76,327	53,680	1,453,113	4,428,643	5,881,756
Held to maturity.....	6,880,673	774,441	—	7,655,114	5,319,830	12,974,944
As of 31 December 2009						
	U.S.\$	Euro	Other	Total FC	TL	Total
			<i>(TL, thousands)</i>			
Trading ⁽¹⁾	44,227	65,365	—	109,592	874,035	983,627
Available for sale.....	937,685	70,587	81,434	1,089,706	939,867	2,029,573
Held to maturity.....	5,986,127	1,275,991	504	7,262,622	6,056,097	13,318,719
As of 31 December 2008						
	U.S.\$	Euro	Other	Total FC	TL	Total
			<i>(TL, thousands)</i>			
Trading ⁽¹⁾	115,548	82,541	—	198,089	632,026	830,115
Available for sale.....	804,572	87,198	137,463	1,029,233	825,504	1,854,737
Held to maturity.....	5,655,879	1,162,793	4,042	6,822,714	5,883,067	12,705,781

(1) Including derivative financial assets.

Loan Portfolio

Loans and advances to customers represent the largest component of the Group's assets. As of 30 June 2011, total loans and advances to customers (net), amounted to TL67,546,055 thousand (U.S.\$42,497,833 thousand), which represented 64% of the Group's total assets compared to TL57,804,154 thousand (or 63% of total assets) as of 31 December 2010, TL42,137,597 thousand (or 60% of total assets) as of 31 December 2009 and TL42,469,983 thousand (or 61% of total assets) as of 31 December 2008. The Group's net loans and advances to customers increased by 17% from 31 December 2010 to 30 June 2011, increased by 37% from 31 December 2009 to 31 December 2010 and decreased by less than 1% from 31 December 2008 to 31 December 2009.

The Group provides financing for various purposes, the majority of which are corporate loans and loans to SMEs, with maturities concentrated at approximately 12 months. However, as demand for longer-term financing from existing customers and other high quality corporate credits increases, the Group expects the maturity profile of its portfolio to increase further.

Distribution of Loans and Advances by Sector

The following table sets out the Group's loan portfolio by sectors in line with IFRS standards:

	As of 31 December					
	2010		2009		2008	
	(TL, thousands, except %)					
Retail and consumer .	20,895,613	36	16,312,411	39	15,951,586	38
Manufacturing.....	13,400,928	23	9,556,492	23	10,375,013	24
Other	23,507,613	41	16,268,694	39	16,143,384	38
Total	57,804,154	100	42,137,597	100	42,469,983	100

As part of its ongoing strategy, the Group intends to increase its lending to retail and SME customers. In 2010, lending to individuals increased primarily through consumer loans, which grew by approximately 28%, compared to 2% in 2009.

The following table sets out the Group's performing retail and corporate loans by category as of the dates indicated in line with BRSA financial statements including watchlist customers:

	As of 30 June	As of 31 December		
	2011	2010	2009	2008
		<i>(TL, thousands)</i>		
Individual loans				
Housing	5,828,464	5,231,198	3,825,340	3,181,777
Credit cards	9,217,827	8,549,487	7,494,605	7,445,537
Auto.....	1,073,137	957,023	591,847	627,487
Other.....	4,544,789	3,422,440	2,492,174	2,409,516
Total individual loans	20,694,217	18,160,148	14,403,966	13,664,317
Loans to companies (including SMEs).....	42,999,663	36,082,832	24,458,816	25,246,171
Total loans to companies.....	42,999,663	36,082,832	24,458,816	25,246,171
Total	63,693,880	54,242,980	38,862,782	38,910,488

The Bank expects that its primary growth opportunities in its retail segment will be in mortgages, general purpose loans to individuals and SMEs, which the Bank believes are presently underdeveloped markets in Turkey. The credit card market is also expected to continue to be a focus area for the Bank, although with lower growth as it is a well developed and relatively more penetrated market.

Composition by Maturity and Interest Rate

The following table sets out certain information relating to the maturity profile of the Group's loan portfolio (including non-performing loans) based upon the original term to maturity (showing lifetime cash flows, which as a result are greater than the balance sheet amounts) in line with IFRS requirements as of the dates indicated:

	As of 31 December		
	2010	2009	2008
	<i>(TL, thousands)</i>		
Non-interest bearing	1,172,189	1,035,933	1,122,498
Up to 3 months	17,908,586	13,426,431	14,373,587
3 months to 1 year.....	18,260,692	14,655,016	14,811,686
1 year to 5 years	19,684,584	13,289,898	12,440,060
Over 5 years.....	6,587,161	5,356,232	5,668,308
Total loans	63,613,212	47,763,510	48,416,139

Although the loans typically have an average maturity of 12 months, most of them can be, and generally are, rolled over at the end of their maturity in accordance with the creditworthiness of the borrowers.

Composition of Loan Portfolio by Currency

As of 30 June 2011, foreign currency-denominated loans amounted to TL28,459,550 thousand (U.S.\$17,905,845 thousand), or 42% of total loans (of which U.S. dollar obligations were the most significant portion), compared to TL24,187,069 thousand as of 31 December 2010, TL18,067,562 thousand as of 31 December 2009 and TL18,331,859 thousand as of 31 December 2008. Foreign currency loans are extended exclusively to corporate and commercial and SME customers.

The following table sets out an analysis of the composition of the Group's performing cash loan portfolio by currency, prepared in accordance with IFRS as of the dates indicated:

	As of 30 June	As of 31 December		
	2011	2010	2009	2008
		<i>(TL, thousands)</i>		
TL	39,086,505	33,617,085	24,070,035	24,138,124
U.S.\$	16,864,010	15,060,611	11,111,317	11,182,602
Euro	10,752,493	8,443,658	6,369,968	6,555,605
Other	843,047	682,800	586,277	593,652
Total	67,546,055	57,804,154	42,137,597	42,469,983

Comparison by Loan Classification and Allowances

	As of 30 June 2011					
	Corporate	Consumer	Credit Cards	Leasing	Factoring	Total
			<i>(TL, thousands)</i>			
Performing loans	42,142,808	11,264,284	9,022,458	2,093,386	1,650,837	66,173,773
Watch listed loans	852,978	372,568	195,369	158,040	—	1,578,955
Loans under legal follow-up	979,365	355,882	508,409	265,701	18,700	2,128,057
Gross	43,975,151	11,992,734	9,726,236	2,517,127	1,669,537	69,880,785
Specific allowance for impairment	(882,591)	(216,745)	(389,875)	(169,795)	(17,627)	(1,676,633)
Collective allowance for impairment	(434,604)	(86,525)	(119,791)	(10,507)	(6,670)	(658,097)
Total allowance for impairment	(1,317,195)	(303,270)	(509,666)	(180,302)	(24,297)	(2,334,730)
Net	42,657,956	11,689,464	9,216,570	2,336,825	1,645,240	67,546,055
Current						33,661,539
Non-current						33,884,516

As of 31 December 2010

	Corporate	Consumer	Credit Cards	Leasing	Factoring	Total
	<i>(TL, thousands)</i>					
Performing loans	35,151,219	9,264,955	8,244,469	1,674,713	1,824,229	56,159,585
Watch listed loans	927,771	444,659	305,017	193,801	—	1,871,248
Loans under legal follow-up	973,892	378,569	471,482	313,781	18,044	2,155,768
Gross	37,052,882	10,088,183	9,020,968	2,182,295	1,842,273	60,186,601
Specific allowance for impairment	(848,030)	(228,111)	(419,342)	(195,100)	(17,381)	(1,707,964)
Collective allowance for impairment	(471,452)	(78,899)	(109,330)	(8,296)	(6,506)	(674,483)
Total allowance for impairment	(1,319,482)	(307,010)	(528,672)	(203,396)	(23,887)	(2,382,447)
Net	35,733,400	9,781,173	8,492,296	1,978,899	1,818,386	57,804,154
Current						29,997,872
Non-current						27,806,282

As of 31 December 2009

	Corporate	Consumer	Credit Cards	Leasing	Factoring	Total
	<i>(TL, thousands)</i>					
Performing loans	22,964,455	6,631,435	7,083,106	1,717,570	1,429,416	39,825,982
Watch listed loans	1,482,618	361,959	411,500	328,665	—	2,584,742
Loans under legal follow-up	1,242,429	492,319	803,888	284,233	8,173	2,831,042
Gross	25,689,502	7,485,713	8,298,494	2,330,468	1,437,589	45,241,766
Specific allowance for impairment	(1,157,577)	(368,479)	(804,461)	(152,998)	(6,258)	(2,489,773)
Collective allowance for impairment	(306,114)	(55,732)	(232,802)	(8,416)	(11,332)	(614,396)
Total allowance for impairment	(1,463,691)	(424,211)	(1,037,263)	(161,414)	(17,590)	(3,104,169)
Net	24,225,811	7,061,502	7,261,231	2,169,054	1,419,999	42,137,597
Current						23,338,486
Non-current						18,799,111

As of 31 December 2008

	Corporate	Consumer	Credit Cards	Leasing	Factoring	Total
			(TL, thousands)			
Performing loans	24,131,553	5,998,995	7,050,632	2,456,562	1,046,234	40,683,976
Watch listed loans	813,328	250,613	394,908	166,171	—	1,625,020
Loans under legal follow-up	889,788	246,739	493,860	183,098	4,984	1,818,469
Gross	25,834,669	6,496,347	7,939,400	2,805,831	1,051,218	44,127,465
Specific allowance for impairment	(634,178)	(103,181)	(321,075)	(101,510)	(4,838)	(1,164,782)
Collective allowance for impairment	(294,524)	(51,967)	(128,170)	(12,167)	(5,872)	(492,700)
Total allowance for impairment	(928,702)	(155,148)	(449,245)	(113,677)	(10,710)	(1,657,482)
Net	24,905,967	6,341,199	7,490,155	2,692,154	1,040,508	42,469,983
Current						25,449,227
Non-current						17,020,756

Fair value of collateral

Collateral mainly comprises the following: cash funds, deposits, mortgages of real estate at the land registry and mortgages of real estate built on allocated land, export documents, guarantees, and acceptances and pledges on vehicles. The following table shows the fair value of collateral under the Group's watch listed and loans under legal follow-up.

As of 30 June 2011

	Corporate	Consumer	Credit Cards	Leasing	Factoring	Total
			(TL, thousands)			
Watch listed loans	304,232	145,446	—	76,809	—	526,487
Loans under legal follow-up	178,354	78,347	—	87,981	—	344,682
Total	482,586	223,793	—	164,790	—	871,169

As of 31 December 2010

	Corporate	Consumer	Credit Cards	Leasing	Factoring	Total
			(TL, thousands)			
Watch listed loans	372,980	174,571	—	107,818	—	655,369
Loans under legal follow-up	190,853	80,735	—	101,858	—	373,446
Total	563,833	255,306	—	209,676	—	1,028,815

As of 31 December 2009

	Corporate	Consumer	Credit Cards	Leasing	Factoring	Total
			<i>(TL, thousands)</i>			
Watch listed loans	410,783	180,037	—	183,043	—	773,863
Loans under legal follow-up	342,043	173,030	—	117,649	—	632,722
Total	752,826	353,067	—	300,692	—	1,406,585

As of 31 December 2008

	Corporate	Consumer	Credit Cards	Leasing	Factoring	Total
			<i>(TL, thousands)</i>			
Watch listed loans	301,121	190,007	—	86,084	—	577,212
Loans under legal follow-up	252,781	77,044	—	79,114	—	408,939
Total	553,902	267,051	—	165,198	—	986,151

Credit Classification and Provisioning Policy

A description of the Group's risk management policies is set out in “*Risk Management*”.

The Group uses an internal rating model for the evaluation of credit risk management of its corporate clients, classifying them under a scale of 17 grades. The Bank's rating tool concentration by risk classes as of 31 December 2010, 2009 and 2008 is as follows:

	Concentration level (%)			
	Rating Class⁽¹⁾	2010	2009	2008
Above average	1 – 4	31.2	30.3	32.7
Average	5+ – 6	47.9	47.9	48.3
Below average	7+ – 9	20.9	21.8	19.0

(1) For corporate and commercial clients only.

Scoring models are also used throughout the granting and monitoring/collection processes for consumer loans and credit cards segment. These models are developed and updated in accordance with changes in customer behaviour. A new application scorecard has also been developed to evaluate SME clients. The model classifies clients in 23 rating classes.

Taking into consideration the scoring models, the Group classified credit portfolio into the following groups:

	As of 31 December 2010	
	Loans and advances (%)	Provision Coverage (%)
Group's Rating		
1. Performing loans neither past due nor impaired	93.31	1.20
2. Watch listed – individually impaired	3.11	5.81
3. Legal follow up – individually impaired	3.58	74.19
	100.00	3.96

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

	2011	2010	2009	2008
		<i>(TL, thousands)</i>		
At 1 January	2,382,447	3,104,169	1,657,482	1,989,741
Provision for loan impairment	459,099	1,343,125	2,637,116	862,125
Amounts recovered during the year	(471,172)	(957,923)	(1,028,833)	(480,734)
Loans written off during the year as uncollectible (-).....	(41,168)	(1,108,008)	(160,225)	(715,562)
Exchange differences	5,524	1,084	(1,371)	1,912
At 31 December⁽¹⁾	2,334,730	2,382,447	3,104,169	1,657,482

(1) Except for 2011, which is at 30 June.

In 2010, 2009 and 2008, the Group sold non-performing loan portfolios with aggregate principal amounts of TL1,198,004 thousand, TL77,424 thousand and TL429,229 thousand.

Sources of Funding

As of 30 June 2011, the Group's major sources of funds for its lending and investment activities were deposits from customers, which accounted for approximately 68% of total funding and, to a lesser extent, funds borrowed, which accounted for 17% of total funding, and deposits from banks, which accounted for 12% of total funding, compared to 74%, 17% and 7%, respectively, as of 31 December 2010, 77%, 16% and 4%, respectively, as of 31 December 2009 and 77%, 17% and 2%, respectively, as of 31 December 2008.

The following table sets out the Group's sources of funding as of the dates indicated:

	As of 30 June		As of 31 December					
	2011	%	2010	%	2009	%	2008	%
	<i>(TL, thousands, except %)</i>							
Customer deposits	57,654,065	68	53,490,950	74	42,181,386	77	43,725,847	77
Deposits from banks	10,389,667	12	4,935,470	7	2,432,179	4	1,082,841	2
Funds borrowed	14,777,097	17	12,614,942	17	8,631,136	16	9,652,438	17
Debt securities in issue	2,247,074	3	1,394,904	2	1,744,478	3	1,966,298	3
Total	85,067,903	100	72,436,266	100	54,989,179	100	56,427,424	100

The availability of such funds is influenced by factors such as prevailing interest rates, market conditions and the level of competition prevailing.

Deposits from Customers

Deposits consist of customer demand and time deposits. Customer current accounts generally bear no interest and can be withdrawn upon demand. For time deposits, different interest rates are paid on the various types of account offered by the Group. Deposits from customers comprise local deposits, foreign currency deposits, savings, and commercial deposits.

Deposit growth in the first half of 2011 was driven by growth in both local and foreign currency deposits.

As of 31 December

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As of 30 June 2011, the weighted average interest rate on Turkish Lira-denominated time deposit accounts offered by the Group to corporate customers was 9.39%, while the interest rates paid on euro and U.S. dollar-denominated time deposits were 3.39% and 4.26%, respectively.

The following table sets out the currency basis analysis of the deposits from customers (including interest expense accruals for all deposits) as of the dates indicated:

	As of 30 June	As of 31 December		
	2011	2010	2009	2008
		<i>(TL, thousands)</i>		
TL.....	32,524,651	31,790,782	22,942,642	24,730,019
U.S.\$.....	17,182,870	13,874,813	11,504,089	12,343,831
€.....	6,960,595	7,076,309	6,994,241	6,050,331
Other.....	985,949	749,046	740,414	601,666
Total	57,654,065	53,490,950	42,181,386	43,725,847

The following table sets out a maturity analysis of deposits including deposits from banks made with the Group by amount (showing lifetime cash flows, which as a result are greater than the balance sheet amounts) as of the dates indicated:

	As of 31 December		
	2010	2009	2008
	<i>(TL, thousands)</i>		
Demand and up to 3 months	56,206,614	41,921,977	43,111,249
From 3 to 12 months	1,573,841	2,156,110	1,431,396
Over 12 months	1,053,307	779,512	667,022
Total.....	58,833,762	44,857,599	45,209,667

Deposits from Banks

Deposits from banks comprise demand and term deposits. The Group's deposits from banks increased by 110.5% to TL10,389,667 thousand (U.S.\$6,536,848 thousand) as of 30 June 2011 from TL4,935,470 thousand as of 31 December 2010, driven mainly by an increase in repurchase agreements from banks, compared to an increase of 103% from TL2,432,179 thousand as of 31 December 2009 and 125% from TL1,082,841 thousand as of 31 December 2008.

Repurchase Obligations

The Group's obligations arising from agreements for the repurchase or resale of government securities and Eurobonds amounted to TL9,358,120 thousand (U.S.\$5,887,831 thousand) as of 30 June 2011, which represented an increase of 191% from TL3,219,418 thousand as of 31 December 2010, which in turn represented an increase of 160% from TL1,238,681 thousand as of 31 December 2009 which represented a further increase of 58% from TL785,427 thousand as of 31 December 2008. These obligations represented 10% of consolidated total liabilities as of 30 June 2011 compared to 4% as of 31 December 2010 and a negligible amount as of 31 December 2009 and 2008. The above increases were the result of the Group's policy of diversifying its funding sources.

Other Borrowed Funds

The following table sets out a breakdown of the Group's other borrowed funds:

	As of 30 June	As of 31 December		
	2011	2010	2009	2008
		<i>(TL, thousands)</i>		
Foreign institutions and banks				
Syndication loans.....	4,392,823	3,385,043	2,070,306	1,479,804
Subordinated debt	2,425,266	2,110,274	2,224,023	2,220,601
Other.....	6,217,610	5,248,988	3,212,281	4,800,994
Total foreign	13,035,699	10,744,305	7,506,610	8,501,399
Domestic banks	1,101,868	1,439,039	1,077,640	883,428
Interbank money market.....	639,530	431,598	46,886	267,611
Total domestic.....	1,741,398	1,870,637	1,124,526	1,151,039
	14,777,097	12,614,942	8,631,136	9,652,438
Current	9,381,300	7,761,132	5,012,536	5,701,524
Non-current	5,395,797	4,853,810	3,618,600	3,950,914

The following table sets out the currency breakdown of the Group's outstanding principal borrowings as of the dates indicated:

	As of 30 June	As of 31 December		
	2011	2010	2009	2008
		<i>(TL, thousands)</i>		
TL.....	2,097,940	2,423,004	1,417,159	1,610,353
U.S.\$.....	4,035,347	3,355,373	1,512,248	2,974,763
€	8,552,957	6,778,604	5,658,712	5,050,085
Other.....	90,853	57,961	43,017	17,237
Total	14,777,097	12,614,942	8,631,136	9,652,438

The following table sets out the maturity profile of the Group's borrowings over expected cash flows as of the dates indicated (showing lifetime cash flows, which as a result are greater than the balance sheet amounts):

	As of 31 December		
	2010	2009	2008
	<i>(TL, thousands)</i>		
Within 1 year.....	8,102,816	5,379,154	6,181,382
1 to 5 years.....	3,079,078	1,970,505	2,469,799
Over five years	2,661,837	2,122,797	2,728,494
Total.....	13,843,731	9,472,456	11,379,675

The Group has entered into a number of Turkish Lira/Turkish Lira and foreign currency financings with banks and other financial institutions, which have an average maturity of 12 months.

As of 30 June 2011, the Group had outstanding borrowings of TL14,777,097 thousand.

	As of 30 June	As of 31 December			As of 30 June	As of 31 December		
						Average interest rate ⁽¹⁾		
	2011	2010	2009	2008	2011	2010	2009	2008
		(TL, thousands)				(%)		
U.S.\$175,000,000 Series 2006 A Floating Rate Notes Due 2014	194,066	211,335	257,266	258,967	0.51	0.53	0.51	2.42
U.S.\$200,000,000 Series 2006 B Floating Rate Notes Due 2014	55,596	60,261	294,019	295,962	0.48	0.50	0.48	2.39
U.S.\$114,000,000 Series 2006-C Floating Rate Notes Due 2013	103,444	117,728	167,569	170,155	0.61	0.63	0.61	2.52
€279,846,000 Series 2006 D Floating Rate Notes Due 2014	84,519	84,223	590,539	629,848	2.03	1.26	0.93	4.34
€67,215,000 Series 2007 A Floating Rate Notes Due 2015	48,243	47,673	141,833	241,430	1.61	1.22	0.89	4.3
U.S.\$199,000,000 of Series 2007 B Floating Rate Notes Due 2015	94,301	101,361	292,534	369,936	0.45	0.47	0.45	2.36
USD112,080,000 of Series 2010 A Floating Rate Notes Due 2015	156,023	169,111	—	—	0.89	0.92	—	—
USD7,500,000 of Series 2010 B Floating Rate Notes Due 2015	9,943	11,316	—	—	0.90	0.92	—	—
€179,440,811 of Series 2010-C Floating Rate Notes Due 2015	361,334	359,154	—	—	2.07	2.03	—	—
€29,659,900 of Series 2010 D Floating Rate Notes Due 2015	60,073	59,362	—	—	1.68	1.64	—	—
USD102,000,000 of Series 2010 E Floating Rate Notes Due 2015	143,181	153,895	—	—	0.85	0.88	—	—
Other	1,216	19,485	718	—	—	—	—	—
TL1,000,000 domestic bonds	935,135	—	—	—	8.86	—	—	—
	2,247,074	1,394,904	1,744,478	1,966,298				
Current	1,318,781	348,969	337,673	9,053				
Non-current	928,293	1,045,935	1,406,805	1,957,245				
	2,247,074	1,394,904	1,744,478	1,966,298				

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Derivatives

The Group also enters into interest rate and foreign exchange swap and future contracts, which are agreements in order to hedge its interest rate and foreign currency exposure risk. The following tables set out certain information on consolidated options, futures and swaps as of the dates indicated based upon management data in line with IFRS requirements:

	As of 30 June 2011		
		Fair Values	
	Contract/ amount	Assets	Liabilities
	(TL, thousands)		
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	7,834,176	80,654	35,251
Currency swaps.....	15,235,312	53,977	86,240
OTC currency options	12,384,808	130,550	117,841
Total OTC foreign exchange derivatives	35,454,296	265,181	239,332
Interest rate derivatives:			
Interest rate swaps	6,811,970	37,175	72,296
Cross currency interest rate swaps	2,721,585	48,001	37,243
OTC interest rate options.....	1,871,520	118	1,580
Total OTC interest rate derivatives.....	11,405,075	85,294	111,119
Other derivatives.....	1,491,630	26,274	10,344
Total derivatives assets/(liabilities) held for trading	48,351,001	376,749	360,795
Derivatives held for hedging			
Derivatives designated as fair value hedges:			
Cross currency interest rate swaps	3,826,525	59,438	135,912
Derivatives designated as cash flow hedges:			
Interest rate swaps	23,331,379	25,093	153,137
Total derivatives assets/(liabilities) held for hedging	27,157,904	84,531	289,049
Total recognised derivative assets/(liabilities).....	75,508,905	461,280	649,844
Current.....		322,257	212,568
Non-current		139,023	437,276
Total recognised derivative assets/(liabilities).....	75,508,905	461,280	649,844

As of 31 December 2010

		Fair Values	
	Contract/ amount	Assets	Liabilities
		(TL, thousands)	
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards.....	5,287,933	24,255	33,661
Currency swaps.....	24,093,958	314,657	195,156
OTC currency options.....	10,928,414	77,679	75,371
Total OTC foreign exchange derivatives.....	40,310,305	416,591	304,188
Interest rate derivatives:			
Interest rate swaps.....	3,541,598	29,705	36,885
Cross currency interest rate swaps.....	3,274,251	240,306	8,640
Total OTC interest rate derivatives.....	6,815,849	270,011	45,525
Other derivatives.....	918,313	6,922	9,455
Total derivatives assets/(liabilities) held for trading.....	48,044,467	693,524	359,168
Derivatives held for hedging			
Derivatives designated as fair value hedges:			
Cross currency interest rate swaps.....	4,317,238	34,462	313,917
Derivatives designated as cash flow hedges:			
Interest rate swaps.....	8,527,020	3,739	139,746
Total derivative assets/(liabilities) held for hedging.....	12,844,258	38,201	453,663
Total recognised derivative assets/(liabilities).....	60,888,725	731,725	812,831
Current		664,284	188,316
Non-current		67,441	624,515
Total recognised derivative assets/(liabilities).....	60,888,725	731,725	812,831

As of 31 December 2009

		Fair Values	
	Contract/ amount	Assets	Liabilities
		(TL, thousands)	
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	4,076,196	39,284	42,170
Currency swaps.....	13,815,348	474,910	12,707
OTC currency options	3,938,532	30,974	30,880
Total OTC foreign exchange derivatives	21,830,076	545,168	85,757
Interest rate derivatives:			
Interest rate swaps	7,191,104	38,170	25,336
Cross currency interest rate swaps	3,025,092	33,889	156,490
OTC interest rate options.....	1,793,988	477	932
Total OTC interest rate derivatives.....	12,010,184	72,536	182,758
Other derivatives.....	423,808	—	—
Total derivatives assets/(liabilities) held for trading	34,264,068	617,704	268,515
Derivatives held for hedging			
Derivatives designated as fair value hedges:			
Cross currency interest rate swaps	3,968,893	128,631	357,613
Derivatives designated as cash flow hedges:			
Interest rate swaps	—	—	—
Total derivative assets/(liabilities) held for hedging.....	3,968,893	128,631	357,613
Total recognised derivative assets/(liabilities).....	38,232,961	746,335	626,128
Current.....		494,171	126,341
Non-current		252,164	499,787
Total recognised derivative assets/(liabilities).....	38,232,961	746,335	626,128

As of 31 December 2008

		Fair Values	
	Contract/ amount	Assets	Liabilities
		(TL, thousands)	
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	3,875,363	83,184	65,999
Currency swaps.....	8,047,504	235,958	50,147
OTC currency options	769,814	1,847	521
Total OTC foreign exchange derivatives	12,692,681	320,989	116,667
Interest rate derivatives:			
Interest rate swaps	3,179,352	526	22,637
Cross currency interest rate swaps	2,188,339	112,136	81,478
OTC interest rate options.....	266,440	—	—
Total OTC interest rate derivatives.....	5,634,131	112,662	104,115
Other derivatives.....	46,462	—	—
Total derivatives assets/(liabilities) held for trading	18,373,274	433,651	220,782
Derivatives held for hedging			
Derivatives designated as fair value hedges:			
Cross currency interest rate swaps	—	—	—
Derivatives designated as cash flow hedges:			
Interest rate swaps	—	—	—
Total derivative assets/(liabilities) held for hedging.....	—	—	—
Total recognised derivative assets/(liabilities).....	18,373,274	433,651	220,782
Current.....		370,839	146,828
Non-current		62,812	73,954
Total recognised derivative assets/(liabilities).....	18,373,274	433,651	220,782

BUSINESS OF THE BANK

Overview

Yapı ve Kredi Bankası A.Ş. is a full service bank with its headquarters in Istanbul, Turkey. It was established in 1944 and is incorporated with limited liability under the laws of the Republic of Turkey for a period of 100 years.

According to BRSA statistics, as of 30 June 2011 the Bank was the fourth largest private bank in Turkey by total assets and ranked fifth in total cash loans (loans other than letters of guarantee, letters of credit and acceptances) with a 10.5% market share, and sixth in total deposits with an 8.6% market share. The Bank has 887 branches located in more than 70 cities and serves 6.1 million active customers in Turkey. It maintains significant positions in key segments and products supported by its strong franchise, large network and leading brand. The Group is organised into three segments, retail banking, private banking and corporate/commercial banking. The Bank's service model is supported by its domestic and international subsidiaries. The Bank's shares are listed on the Istanbul Stock Exchange and its global depositary receipts are listed on the London Stock Exchange.

As of 30 June 2011, the Bank held the leading market position in Turkey in credit cards (with a 18.2% market share in credit card outstanding volume (according to the Bank's BRSA financial data), non-cash loans (with a 14.0% market share (according to the BRSA statistics), leasing (with a 18.9% market share (according to the Turkish Leasing Association)) and factoring (with a 17.3% market share (according to the Turkish Factoring Association)). The Bank also has strong positions in asset management (ranking second with a 17.4% market share (according to Rasyonet)), brokerage services (ranking third with a 5.5% market share (according to the Capital Markets Board)), private pension funds (ranking third with a 16.0% market share (according to the Pension Monitoring Center)) and life and non-life insurance (5.4% and 5.9% market shares respectively (according to the Turkish Insurance and Reinsurers Association)) as of 30 June 2011.

The Bank has a strong focus on retail banking. As of 30 June 2011, the Group had approximately 6 million retail customers (of which approximately 5.1 million are mass market customers, 390 thousand affluent and 570 thousand SMEs) providing TL30.9 billion (U.S.\$19.4 billion) of assets in its retail banking segment (including credit cards, individual banking services and SMEs), amounting to 29% of the Group's total assets. The Bank's retail products and services include deposit taking, overdraft facilities, debit and credit cards, general purpose loans, car loans, mortgages, product bundles, mutual funds, capital guaranteed funds, health and life insurance and private pension products, as well as electronic banking services, such as automated payments and related transactions. The Bank provides its SME clients with a range of banking products and services tailored to the SME market, including commercial flexible accounts, product bundles, working capital loans, auto, mortgage and workplace insurance, remittances, loan guarantees, and POS services, as well as Kobiline, an e-business platform for SMEs.

The Bank also provides a wide range of financial products and services to its corporate and commercial clients, which include large Turkish corporates and trade companies. As of 30 June 2011, the Bank had approximately 1,400 corporate clients and 31,300 commercial clients. The Bank's principal products and services include general corporate and working capital finance, project finance, structured finance, trade finance (including pre-export loans, bills of collection drawn on foreign banks, acceptance letters of credit and advance payment and performance guarantees), Turkish Lira commercial loans and other short-term credit facilities, cash management services, deposit taking, derivative products and electronic banking services.

The Bank also conducts treasury operations, covering Turkish Lira and foreign currency fixed income, money market instruments and currency and interest rate swaps and other derivatives, both for its own account and for the account of its customers.

The Bank has the fifth largest branch network in Turkey with 887 branches throughout Turkey as of 30 June 2011. While the Bank's branch network covers almost all regions in Turkey, there is a substantial concentration in the largest cities in Turkey (including Istanbul, Ankara, Adana, Antalya, Izmir and Bursa). As of 30 June 2011, 68% of the Bank's branches were located in the 10 largest cities in Turkey compared to 74% as of 31 December 2007 and 68% as of 31 December 2010. In the largest 10 cities, the Bank's market share as of 31 December 2010 in terms of branches was 9.7%, compared to 9.2% across Turkey and as of 30 June 2011 these figures were 10.0% and 9.1%, respectively (according to BRSA statistics).

In addition to its branch network, the Bank offers its products and services through advanced alternative distribution channels including telephone banking, internet banking and mobile banking as well as its 2,595 ATMs, which was the fifth largest ATM network in Turkey as of 30 June 2011, according to BRSA statistics. See “*Alternative Channels*”. As of 31 December 2010 and 30 June 2011, the Group had 16,780 and 16,917 employees, respectively, of which 14,411 and 14,547 were employees of the Bank. Internationally, the Group carries out business through subsidiaries in the Netherlands, Russia and Azerbaijan and a branch in Bahrain.

The Group had total assets of TL106.2 billion (U.S.\$66.8 billion) as of 30 June 2011 compared with TL91.8 billion as of 31 December 2010, TL70.7 billion as of 31 December 2009 and TL69.7 billion as of 31 December 2008.

For the six month period ended 30 June 2011, the Group had operating income of TL2.75 billion (U.S.\$1.8 billion) compared to TL2.8 billion for the six month period ended 30 June 2010, a decrease of 2%. For the year ended 31 December 2010, the Group had operating income of TL5.7 billion (U.S.\$3.9 billion), compared with TL6.0 billion for the year ended 31 December 2009 (a decrease of 5%) and TL4.6 billion for the year ended 31 December 2008 (an increase of 30% between 2009 and 2008). For the six month period ended 30 June 2011, the Group’s cost to income ratio was at 44.4%. For the year ended 31 December 2010, the Group’s cost to income ratio was at 40.8%, compared with 37% in 2009 and 46% in 2008. The Group’s net income was TL1.2 billion and its return on average shareholders equity (excluding minority interest) was 22.0% for the six month period ended 30 June 2011 compared with TL1.2 billion and 27.3%, respectively, for the six month period ended 30 June 2010. The Group’s net income was TL2.2 billion and its return on average shareholders equity (excluding minority interest) was 25.9% for the year ended 31 December 2010, compared with TL1.6 billion and 22.6%, respectively, for the year ended 31 December 2009 and TL1.4 billion and 27.2%, respectively, for the year ended 31 December 2008. As of 30 June 2011 and 31 December 2010, the Bank’s capital adequacy ratio according to BRSA Principles was 14.1% and 16.1%, respectively, and the Group’s capital adequacy ratio was 13.8% and 15.4%, respectively, on a consolidated basis.

Key Competitive Advantages

The Group’s management believes that it has a number of key competitive advantages that enable it to compete effectively in the Turkish banking sector, including:

- **Strong retail focus with leading market positions in key segments and products.** The Group is the fourth largest privately owned bank in Turkey by assets with leading market positions in Turkey in credit cards, asset management, non-cash loans, leasing, factoring, private pension funds and health insurance by volume.
- **Robust and customer-oriented balance sheet.** The Group has a strong link to the real economy with total assets incorporating a high proportion of loans (64%) and a low proportion of securities (19%). As a result of its strong focus on customers and their satisfaction, the Group maintains a relatively high demand deposit to total deposit ratio (18% as of 30 June 2011) compared to the average ratio across the Turkish banking sector (15% as of 30 June 2011).
- **Large network and leading brand.** The Group has a solid distribution platform, including the fifth largest branch network in Turkey with 887 branches, and an extensive alternative distribution channel network, including 2,595 ATMs as well as award winning telephone, mobile and internet banking.
- **Solid risk profile.** The Group has a conservative risk management strategy with solid credit risk infrastructure, underwriting and monitoring systems. The Group holds 60% of its securities portfolio as held to maturity, avoids speculative open foreign exchange positions and maintains liquidity ratios well above the levels required by the regulator. As of 30 June 2011 and 31 December 2010, the Bank’s capital adequacy ratio according to BRSA Principles was 14.1% and 16.1%, respectively, and the Group’s capital adequacy ratio was 13.8% and 15.4%, respectively, on a consolidated basis.
- **Diversified, high quality revenue mix.** The Group believes it has a sustainable revenue base with a high share of fees in total revenues amounting to 35% for the six months ended 30 June 2011. The Group focuses on profitable and high-growth segments including credit cards, SME and retail banking.

- **Proven track record of cost control and efficiency improvements.** Driven by strict cost containment and improvements in efficiency, the Group has improved its cost to income ratio to 44% as of 30 June 2011 from 50% in 2007.
- **Strong and committed shareholders.** Support from Koç Holding and UniCredit provide stability and maximises the Bank's growth potential. The Group benefits from UniCredit's know-how and expertise in risk management, internal audit, organisation, financial planning and control as well as from the UniCredit Group's experience in implementing efficiency improvements and improving cost management. Koç Holding holds strong positions in the energy, automotive and finance sectors in Turkey as well as in consumer durables both domestically and internationally, enabling potential synergies with the Group.

Strategy

As a fully integrated banking and financial services group, the Bank is working towards its goal of becoming the leader in the finance sector. The Bank's mission is to ensure long-term sustainable growth and value creation for all of its shareholders. The Bank's strategy is structured around three main principles:

Healthy and consistent growth

- The Bank intends to focus on its core banking activities to maintain a leading position in areas with the highest return on capital and the highest potential for growth.
- Continuous expansion of the Bank's market presence through rational network development and investment in growth aimed at sustaining long-term performance and increasing commercial effectiveness.

High quality and long-term sustainable customer relationships

- Continuous innovation, and investments in technology and delivery channels is undertaken to address changing customer needs and to enhance the Bank's reputation as an easy to work with Bank.
- Strong focus on employee loyalty and satisfaction.

Strong and sustainable profitability

- Efforts are planned to address specific customer needs via segment based service strategy and optimisation of cost to serve to improve competitiveness.
- Outstanding efficiency, cost and risk management are the three most important areas for the Bank.

Key strategic objectives

The Bank aims to record an above sector performance through its strong focus on customer satisfaction. The Bank expects to continue its strong performance through the following key long-term strategic pillars:

Growth and Commercial Effectiveness

- Continued strong focus on commercial effectiveness (cross sell, product bundling, customer activation/acquisition, new products/services, synergies with subsidiaries, reduced response time to market).
- Increased efforts to redesign processes to improve sales effectiveness.
- Continued focus on investments in growth via branch expansion.

Net Interest Margin (NIM) Management

- Continued focus on higher margin customer business and corresponding increasing share of loans out of total assets.
- Increasing emphasis on optimal allocation and reallocation of loans among segments/products. More emphasis on more profitable retail volume growth in local currency (SME, general purpose, mortgage) and project finance in foreign currency.
- Efforts to favourably reprice lending terms.

Funding and Liquidity

- Acceleration in diversification of funding sources (rollover of syndications, TL bond issuance, repo funding).
- Increasing focus on total cost of funding with emphasis on optimisation of deposit pricing.

Cost and Efficiency

- Disciplined approach towards cost containment.
- Increased emphasis on reduction of costs of service through focused projects:
 - Revision of overall IT architecture and optimisation of processes to become best practice for operational efficiency, IT capability and time to market.
 - Further diversification and tailoring of non-branch channels, simplification of products and services, fine tuning within subsections to reduce costs to serve and improve customer satisfaction.

Asset Quality

- Ongoing efforts to improve credit infrastructure including monitoring processes, centralisation of underwriting and upgrade of the assessment models, particularly for SMEs and individual clients.
- Dynamic and proactive NPL portfolio management through NPL sales and restructurings.

Sustainability

- Sustained focus on customer and employee satisfaction.
- Continued attention on growing sustainable revenue sources/fee generation.

History

The Bank in its present form results from the merger of Yapı ve Kredi Bankası A.Ş. and Koçbank in 2006. Yapı ve Kredi Bankası A.Ş. was established in 1944 as Turkey's first retail focused privately owned bank with a nationwide presence, and management believes it has played a significant role in Turkey's development, setting standards in the sector through its innovative approach, commitment to social responsibility and investment in culture and arts.

The following are a number of notable landmarks in its history:

- 1940s-1950s: The Bank gained a strong position as Turkey's first retail focused private bank with a nationwide presence, distinguishing itself through its customer friendly approach and limitless service understanding.
- 1960s: Introduced computerisation to the Turkish banking sector and played a pioneering role in developing long-term project finance lending.
- 1970s: Led the way in the development of financial and international subsidiaries and became the first bank to be authorised to hold a foreign currency position in Turkey.
- 1980s: Introduced individual loans, credit cards, debit cards, ATMs, online banking systems, laid the foundations for today's corporate banking, established the first Turkish offshore bank in the Middle East and became the first Turkish bank to issue bonds and certificates in the international capital markets.
- 1990s: Initiated the first telephone banking service, introduced an advanced credit card infrastructure with loyalty point awards and instalments and was the first bank in Turkey to receive the ISO 9001 quality certification. In addition, the Bank developed its services infrastructure and modernised its corporate structure, human resources, education systems and market strategies to better suit the requirements of an increasingly technology-driven environment.
- 2000s: Successfully completed its merger with Koçbank in October 2006, the largest merger in the Turkish banking sector, creating a strong retail franchise.

In addition, Yapı ve Kredi Bankası A.Ş., through further investments in the 1990s, developed its services infrastructure and modernised its corporate structure, human resources, education systems and market strategies to better suit the requirements of an increasingly technology-driven environment.

Following significant volatility in the Turkish currency and foreign exchange markets in 2001 and the collapse of several institutions, in 2002 the BRSA commenced an audit process that assessed the financial condition of all Turkish banks. Following this audit process, in January 2003 the BRSA, the Saving Deposit Insurance Fund (“SDIF”) and the Çukurova Group, which was then the Bank’s largest shareholder, entered into an agreement under which the SDIF took certain protective measures and it was agreed that shares of Yapı ve Kredi Bankası A.Ş. previously owned or controlled by the Çukurova Group (57.4% in aggregate) would be sold within two years.

Koçbank was founded in 1981 as the American Express Bank, based in Istanbul. Koç Holding acquired a 51% stake in the American Express Bank in 1986, renaming it Koç-American Bank, and in 1992, the bank became a wholly owned subsidiary of Koç Holding and was renamed Koçbank A.Ş. KFS was established in March 2001 as a management company and all financial services companies owned by Koç Holding, including Koçbank, were united under KFS. In October 2002, Koç Holding and UniCredit signed a joint venture agreement and became shareholders in KFS (each with a 50% interest), making KFS the first foreign partnership to be established in the financial sector in Turkey.

Under the management of UniCredit and Koç Holding, Koçbank underwent a significant restructuring process and began a period of organic growth. By 2005, Koçbank had over 170 service points and had developed its own expertise in private banking, asset management and corporate and commercial banking, leasing and factoring companies.

In January 2005, pursuant to its agreement with the BRSA and the SDIF, Çukurova Group sold KFS 57.4% of Bank shares. In April 2006 Koçbank acquired a further 9.9% of the Bank’s shares, taking Koçbank’s interest in the Bank to 67.3%.

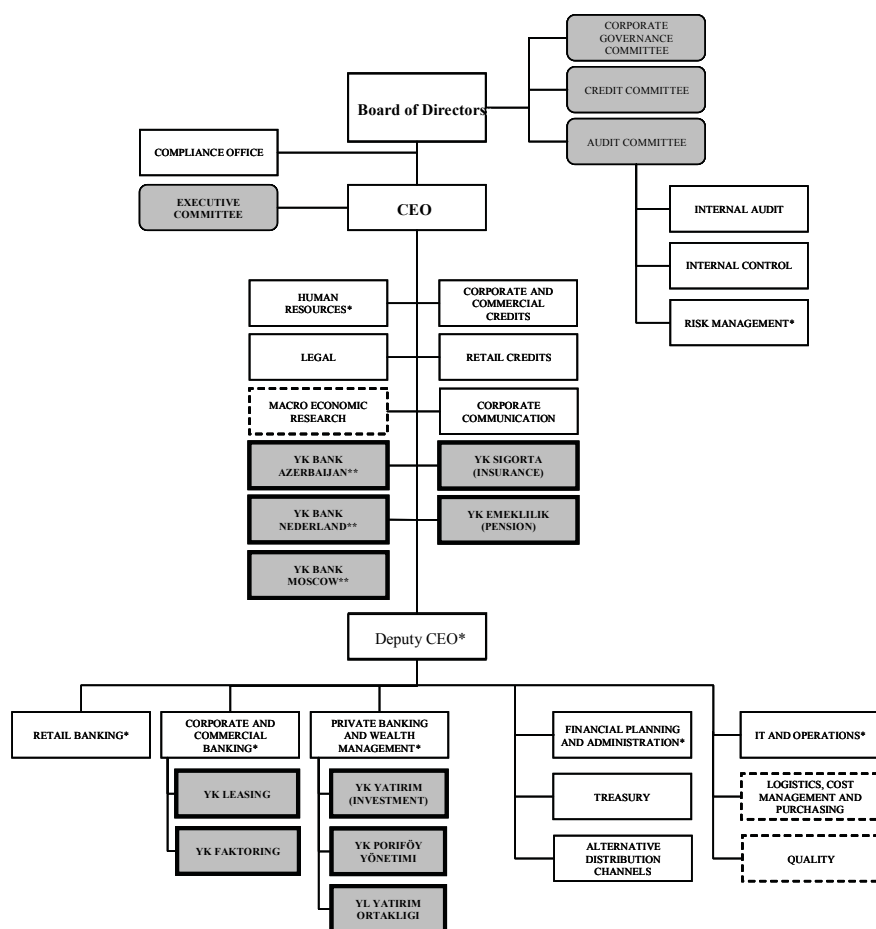
In October 2006, Yapı ve Kredi Bankası A.Ş. was merged with Koçbank, when Koçbank was dissolved and its rights, receivables, obligations and liabilities were transferred to Yapı ve Kredi Bankası A.Ş., with the combined legal entity continuing under the name Yapı ve Kredi Bankası A.Ş. This merger combined the strengths, experiences and resources of two established institutions in the Turkish financial sector.

Overview of Banking Products and Services

The Bank’s operations are carried out through three main segments (1) retail banking, which includes the Bank’s credit card, individual and SME business segments, (2) private banking and wealth management, and (3) corporate and commercial banking.

Organisational structure

The following chart represents the Bank's organisational structure, including its subsidiaries structure.



* Executive Committee Permanent Member.

** In YK Moscow, YK NV and YK Azerbaijan, Corporate and Commercial Banking Assistant General Manager to be Board Member and to be accountable for results to foster synergies.

Retail Banking

Overview

The Bank's retail banking division consists of its credit cards business, individual banking and SME banking businesses. The Bank's credit card business was moved within the retail banking division as part of the 2009 reorganisation.

Retail banking is currently a key source of growth for the Bank, especially in credit cards, mortgages, SME loans, asset gathering (deposits and mutual funds) and pension funds. The Bank's retail banking division currently serves approximately 6 million active retail customers, of which 1 million are mass market customers, 390 thousand affluent, 570 thousand SMEs by approximately 3,542 retail relationship managers, of which 1,626 are focused on SMEs and 1,916 are focused on individuals, through 747 retail branches. In general, the Bank considers a retail customer to be active on the basis of the customer carrying out any transaction in the prior three months or having an average demand deposit balance of TL100 or more in the prior three months.

In the Turkish retail banking market, as of 31 December 2010 and 30 June 2011 the Bank was the market leader by credit card volume outstanding and acquiring turnover. As of 31 December 2010 and 30 June 2011, the Bank was seventh largest by volume of consumer loans and sixth largest by volume of deposits, in each case according to BRSA statistics. Income from the Bank's retail banking activities comprises primarily interest income from loans to individuals and SMEs and commission income from loans, credit cards, point-of-sale business and other banking transactions. As of 30 June 2011, the Bank had loans in its consumer segment (excluding credit cards) of TL11,476,390 thousand (U.S.\$7,220,580 thousand), compared to TL9,610,661 thousand as of 31 December 2010 and TL6,909,361 thousand as of 31 December 2009.

The Bank offers its retail customers a broad range of products and services, including general purpose loans, car loans, credit, debit and prepaid cards, wireless payments via mobile phones, payment and collection services, deposit and overdraft accounts, asset management products, ATMs, telephone banking, internet banking and mobile banking and life and non-life insurance products. The Bank introduced some of these products and services to the Turkish banking industry, including consumer loans, credit cards, overdraft accounts, telephone banking, ATMs and point of sale (“POS”) terminals, and the Bank’s management believes that the Bank has been a pioneer in retail banking in Turkey.

Retail Customer Segmentation

Within the retail banking division, the Bank’s customers are divided into three segments to facilitate customer management and to allow a clear and focused approach for responding to different groups’ behaviours and needs. These three segments are: the mass segment and the affluent segment (for individuals) and SMEs (for companies), which are further subdivided into micro SMEs and macro SMEs.

Individuals are segmented mainly by the value of their assets with the Bank and/or the amount of their monthly salary, while SME customers are segmented according to their annual turnover. Mass customers are customers with total personal financial assets of up to TL50,000 and/or a monthly salary below TL4,000. Affluent customers are individual customers with personal financial assets between TL50,000 and TL500,000 and/or a monthly salary between TL4,000 and TL20,000.

Within the SME segment, micro SMEs are customers with annual turnover of less than U.S.\$250,000, while macro SMEs are corporate customers with annual turnover of greater than U.S.\$250,000 and less than U.S.\$5,000,000.

Credit Card Business

The Bank was the first bank in Turkey to issue credit cards, starting in 1988. Since then, it has been one of the Turkey’s leading issuers and acquirers of credit cards and this remains an important focus for the Bank. The Bank has maintained non-exclusive agreements with Visa International since 1981, Visa Europe since 2009 and MasterCard International since 1988.

Credit Cards

As of 30 June 2011, the Bank had approximately 8 million credit cards (including virtual cards) issued representing approximately 16.4% and 18.2% market share in Turkey by number of cards and by outstanding balance, respectively. The Bank’s outstanding credit card receivables (including corporate cards), increased to TL9,217,827 thousand (U.S.\$5,800 million) as of June 2011 from TL8,549,486 thousand (U.S.\$5,672 million) as of 31 December 2010, TL7,494,606 thousand (U.S.\$5,106 million) as of 31 December 2009 and TL7,445,540 thousand (U.S.\$5,050 million) as of 31 December 2008.

Credit card customers are an important source of new business for the Bank, as a credit card is often the first of the Bank’s products acquired by a customer. The Bank endeavours to cross sell its credit card customers other products and services utilising advanced marketing techniques, including customer relationship management programs and database marketing systems with its merchant network to increase sales. The Bank’s credit card division is served by a sales team comprising approximately 142 sales people throughout various regions in Turkey.

The Bank’s own credit card brand, Worldcard, was launched in 1991. In 2002, following changes in both card technology and customer preferences, the Bank re-launched the Worldcard brand by allowing the card to be used with merchants in the Bank’s merchant network to purchase items on instalment plans and offered a new Worldcard loyalty programme. The Bank offers a wide variety of credit cards each targeted at a specific range of customers. Following are some examples of the Bank’s credit cards and a brief description of their features:

- ***Worldcard:*** Worldcard is the Bank’s mass credit card with installment, loyalty point and cash advance options. Worldcard had over 3.5 million holders as of 30 June 2011.
- ***World Gold Card:*** World Gold card is the second tier card in the “World” portfolio, offering the same benefits of the Worldcard but considered to be more prestigious. World Gold card provides assistance services to cardholders such as medical consulting, homecare services, information line for social activities, restaurants and hotels. There were approximately 1.4 million World Gold cards in circulation as of 30 June 2011.

- *World Platinum Card:* World Platinum card is the most prestigious credit cards in the World portfolio. Customers with a minimum monthly income of TL4,000 can apply for a World Platinum card. 214,000 World Platinum cards had been issued by 30 June 2011.
- *Adios Card:* the Adios card was launched in 2009 and specifically targets customers who travel frequently. As of 30 June 2011, the number of cardholders was over 195,000. Adios cardholders are able to redeem their loyalty points at a greater value to cover their travel expenses.
- *Adios Premium Card:* Adios Premium card was launched in May 2010 and targets the affluent traveller segment with a minimum monthly income of TL4,000. The card had over 19,000 cardholders as of 31 July 2011. Adios Premium Cardholders are able to redeem their loyalty points at a greater value to cover their travel expenses.
- *Play Card:* Play card specifically targets the youth segment and won The Best New Customer Proposition and The Best of The Best awards in the Visa Europe Member Awards 2009 held among all VISA Europe member banks. There were 480,000 Play cards in circulation as of 30 June 2011.
- *Taksitçi Card:* Taksitçi enables cardholders to take benefit from repaying in three installments on purchases of TL100 or above with merchants who are not members of the Bank's "World" network, as well as a further three installments on purchases of TL100 or above with merchants who are "World" members. Approximately 190,000 Taksitçi cards were in circulation as of 30 June 2011.
- *Crystal Card:* Crystal card is the most prestigious credit card in the Bank's credit card portfolio which is offered to a limited number of distinguished clients. Crystal cards offer several privileges to cardholders ranging from private concierge services to travel privileges, as well as other services such as insurance. There were approximately 8,850 Crystal cards in circulation as of 30 June 2011.
- *World Business Card:* World Business Card meets the purchasing and cash advance needs of companies, combined with the "World" system advantages. Cardholders gain "Worldpoints" and make installment purchases at member merchants. There were approximately 90,000 World Business cards in circulation as of 30 June 2011.

The Bank offers an instalment payment programme on its credit cards in conjunction with certain members of its merchant network, whereby cardholders are able to make instalment payments for their purchases, and provided the instalment payments are paid over the agreed time period, interest will not accrue on the amount of the purchase. The programme is only available where Bank's cardholders make a purchase through one of the Bank's participating merchants, except where customers have the Taksitçi card in which case a limited number of purchases may be made on an installment basis.

In 2011, the Bank launched a new mobile payment technology called Paymobile. Paymobile consists of the Paymobile-iCarte and Paymobile-Simcard applications, offering different solutions for different mobile phones. The Bank's Paymobile iCarte solution (designed for iPhone users) won the Most Innovative Use of Visa Europe Systems or Services prize by Visa Europe Member Awards in April 2011. Paymobile is expected to give the Bank a strong foothold in the mobile solutions market and to help the Bank gather information in relation to near field communication technology.

The Bank's credit card business operates in accordance with the Bank Cards and Credit Cards Law enacted in 2006 (Law No. 5464), which requires that banks issue credit cards only upon the request of a customer, either orally or in writing. Credit limits are set at an amount not exceeding two months of the cardholder's salary for the first year the customer receives its first credit card from a Turkish bank, and an amount not exceeding four months of salary for the second year. The Central Bank determines the maximum contractual and default interest rates of credit cards.

Co-branding Partnerships

The Bank began its credit card co-branding partnerships in 2006, when it launched a co-branded card with Millennium Bank. As of the date of this Offering Memorandum, the Bank has credit card co-branding partnership agreements with TEB, Vakıfbank, Anadolubank and Albaraka Türk. These partnerships have helped the Bank's credit card brand "World" become Turkey's largest credit card network and marketing platform, with approximately 12 million credit cards.

Merchant Network

The Bank has the leading merchant network in Turkey according to Interbank Card Centre. The Bank's POS terminals increased to a total of 418,317 units as of 30 June 2011, from a total of 404,293, 356,976, and 312,320 units as of 31 December 2010, 2009 and 2008 respectively. Approximately 320,638 member merchants use the Bank's POS terminals. The number of members of the Bank's "World" merchant network increased to 210,157 as of 30 June 2011 compared to 207,379 as of 31 December 2010. The Bank considers a merchant to be an active customer if it has a turnover of at least TL1,500 per month.

Developing its relationships with merchants is a key priority for the Bank. In line with this, POS terminal sharing was one of the main areas of focus for the Bank and as a result, the number of terminals used jointly with other banks reached 143,627 as of 30 June 2011. The Bank's large POS network enhances the Bank's retail transactions volume and provides added value to the Bank's cardholders through the various campaigns, promotions and loyalty programmes offered through the POS network and participating merchants.

In order to encourage customers to use its cards and to attract merchants to its "World" network, the Bank offers rewards, gift cheques, discounts and other privileges to its customers. During 2010, more than 480 campaigns with over 100 "World" member brands in 15 sectors were organised. In addition, the Bank continues to invest in new technologies. For example, in 2010, the Bank increased its product portfolio to include Volume-POS, a product that provides cardholders with voice instructions. The Bank is the only provider of Volume-POS in Turkey and worldwide. The Bank also introduced contactless features to its credit cards and contactless readers to its merchant network. These readers allow customers to pay by swiping their cards close to the readers. As of 30 June 2011, the Bank continues to be one of the key players in the contactless payment market, with 12,916 contactless readers deployed to merchants.

Individual Banking

The Bank's individual banking activities are organised under mass and affluent sub-segments to enable the Bank to differentiate its services and to provide the most suitable products to different customer groups. As of 31 December 2010 and 30 June 2011, the Bank provided individual banking services to approximately 5.0 million and 5.1 million active mass and approximately 346,000 and 390,000 active affluent customers, respectively. In general, the Bank considers a retail customer to be active on the basis of the customer carrying out any transaction in the prior three months or having an average demand deposit balance of TL100 or more in the prior three months.

The Bank's product offering includes mortgages, general purpose loans, home improvement loans, education loans and auto loans.

The Bank offers customers in its mass segment a wide variety of products and services through diverse delivery channels including both traditional branches and a variety of alternative distribution channels such as the Bank's internet banking portal and call centre. The Bank's loans and advances to customers in its mass segment comprised 33% of its total loans and advances to its retail customers as of 30 June 2011 and the Bank's customer deposits from customers in its mass segment comprised 33% of its total customer deposits from its retail customers as of 30 June 2011.

The Bank's affluent customers are served by 717 relationship managers and a wide distribution network. In addition to the standard individual banking products offered to all individual customers, the Bank's relationship managers for affluent customers have expertise in investment and mortgage products. Affluent customers also benefit from the Bank's asset management and brokerage services. The Bank's loans and advances to customers in its affluent segment comprised 21% of its total loans and advances to its retail customers as of 30 June 2011 and the Bank's customer deposits from customers in its affluent segment comprised 43% of its total customer deposits from its retail customers as of 30 June 2011.

The Bank's customer relationship management ("CRM") systems and analytical "data mining" models played a key role in increasing customer loyalty and increasing product sales to its individual customers. The Bank produces targeted offers for its mass segment customers through its campaign management system.

Mortgages

Mortgage loans are an increasingly important part of retail banking services in the Turkish banking sector and are a growing part of the Bank's loan portfolio. As of 30 June 2011 and 31 December

2010, 2009 and 2008 mortgage loans amounted to 11.4%, 11.5%, 11.4% and 10.6%, respectively, of aggregate loans in the Turkish banking sector, according to BRSA statistics.

The Group's mortgage loan portfolio increased by 11% to TL5,828,464 thousand as of 30 June 2011 from TL5,231,198 thousand as of 31 December 2010, which represented an increase of 37% from TL3,825,340 thousand as of 31 December 2009, which in turn represented an increase of 20% from TL3,181,777 thousand as of 31 December 2008. As of 30 June 2011, the Bank's mortgage loans represented 8.9% of the value of the Group's total gross loans, compared to 9.3% as of 31 December 2010, 9.2% as of 31 December 2009 and 7.8% as of 31 December 2008.

The Bank's mortgage loan strategy is based on providing service to customers through the Bank's mortgage experts, developing dedicated branch and non-branch delivery channels and offering innovative mortgage products. The Bank's mortgage experts provide customers with mortgage products and provide consultancy for all aspects of mortgages including financial, legal, technical and tax-related issues at branches. As of 30 June 2011, the Bank had trained over 1,000 mortgage experts.

The Bank has established a dedicated team within the mortgage department to work with real estate developers and improve the flow of new individual mortgage applications to the Bank. This programme has helped the Bank to increase the share of the Bank's mortgages directed to it through its relationships with real estate developers from 3% in 2008 to 8% as of the end of 2009. This ratio remained the same for 2010 and the first half of 2011.

The Bank has developed a real estate agent support programme, under which real estate agents are personally visited by relationship managers or contacted via email, telephone or text message ("SMS"). The programme provides real estate agents with priority service and the opportunity to receive rewards. As a result, in 2010 and in the first half of 2011, 25% of the Bank's mortgages were directed to the Bank through its relationship with real estate agents, compared to 20% in 2009.

Payroll Services

The Bank had 720,000 and 807,000 payroll customers as of 31 December 2010 and 30 June 2011, respectively. The Bank has established limited service branches in the locations where its payroll services customers work in order to provide convenient service. The Bank's management believes that the Bank enjoys a strategic strength in this area, which it intends to continue to develop and grow through cross selling of its products and services.

Auto loans

The Group's auto loans comprised 4.1%, 4.0%, 3.6% and 3.6% of the Group's total gross loans as of 30 June 2011 and 31 December 2010, 2009 and 2008, respectively. The Bank had an exclusive agreement with Ford Otosan from December 2007, which allowed the Bank to locate its agents in auto dealerships in order to provide loans for sales of Ford brand automobiles in Turkey until December 2012 and allowed customers to apply for an auto loan directly from a dealership through an online system. The agreement excludes heavy commercial vehicles, fleet sales and sales for car rental companies. The Bank provided 96,219 auto loans under this programme since 2008 and acquired 21,685 new customers during this period.

Small and Medium-sized Enterprises ("SME")

SMEs are an important segment for the Bank. Micro SMEs ("MSME") are corporate customers with annual turnover of less than U.S.\$250,000. Macro SMEs are corporate customers with annual turnover between U.S.\$250,000 and U.S.\$5,000,000. As of 31 December 2010 and 30 June 2011 the Bank had over 525,000 and 563,000 active SME clients, respectively.

The Bank's SME customers are served through a network of 1,626 dedicated relationship managers in the Bank's branches and are encouraged to utilise the Bank's alternative distribution channels such as internet banking, ATMs and operating out of call centres. In addition, the Bank offers its SME customers access to its e-business platform for SMEs, called Kobiline, which is a joint venture between the Bank and Koc.net which provides information about domestic and international loan grants, technology, internet and patent services, and also provides consultancy services in order to support its SMEs in obtaining grants. The Bank provides SME customers a similar range of products to those provided for corporate customers, as well as products specifically designed for SMEs. One of the specialised products the Bank provides its SME customers is TRIO, a special purchasing card, of which 24,000 cards were outstanding as of 30 June 2011. In addition, more than 154,000 SME customers are merchants in the Bank's Worldcard merchant network.

The Bank is currently involved in three MSME/SME loan programmes in conjunction with European financial development organisations to provide funding for SME clients:

- The Greater Anatolia Guarantee Facility, which was established for the benefit of SMEs operating within less developed regions (financed by the European Investment Bank (“EIB”) and the European Investment Fund (“EIF”). Under this programme, the EIB will provide €50 million funding to the Bank in order for the Bank to generate a total of €100 million in new SME loans. EIF will provide the Bank with the required guarantees for these loans up to a limited amount;
- The EBRD MSME Loan Programme, making available a total of €30 million. The Bank, together with EBRD, will offer short-term working capital loans as well as long-term investment loans of up to €200,000 with concessionary interest rates, specifically aimed at financing SMEs in the agricultural sector; and
- A loan programme in conjunction with the Turkish Development Bank (financed by the European Development Bank), for a total amount of €15 million, intended to finance the research and development activities, modernisation processes and investment capacities of SMEs.

Since 2008, private banks in Turkey have been authorised to provide KOSGEB (Small and Medium Size Industry Development Organisation) interest-subsidised loans to SMEs, craftsmen and artisans. The Bank also collaborates with the Credit Guarantee Fund, which provides loan guarantees to support SMEs.

Private Banking and Wealth Management

The private banking division serves the Bank’s high net worth and ultra high net worth customers. The Bank’s wealth management services are carried out by its subsidiaries Yapı Kredi Invest and Yapı Kredi Asset Management, providing asset management and brokerage to the Bank’s clients.

Private Banking

The Bank has a leading position in the private banking market in Turkey both in terms of total asset size, which amounted to TL21.5 billion as of 30 June 2011, and distribution network, with over 30 private banking centres, branches and corners as well as remote services, compared to an average of under 20 private banking centres for other banks in the Turkish banking sector. Customers with personal financial assets in excess of TL500,000 are serviced by the Bank’s private banking division. The Bank considers a private banking customer to be active if the customer has actual funds on the account and has made at least one transaction in the last three months. As of 31 December 2010 and 30 June 2011, the Bank had 21,503 and 25,043 active private banking customers, respectively.

In 2009, the Bank’s asset management and brokerage businesses were brought together under the governance of the private banking and wealth management division, and the Bank’s customer segmentation criteria were revised to provide more focused products and services to its customers.

Private banking customers are served by private banking portfolio managers through 30 private banking centres, two private banking branches and two “corners” (an area of a standard retail branch dedicated to serving private banking customers). Alternative distribution channels for the private banking segment also include a dedicated call centre team and a separate private banking web page on the Bank website.

As of 31 December 2007, the Bank had private banking assets amounting to approximately TL10 billion which increased to approximately TL13 billion as of 31 December 2008, remained stable at approximately TL13 billion as of 31 December 2009 and increased to approximately TL15 billion as of 31 December 2010 and TL18 billion as of 30 June 2011 (excluding equity balance). In the mutual fund business, the Bank represented 17.4% of the Turkish market, ranking number two in assets under management in mutual funds as of 30 June 2011 according to Capital Markets Board statistics. The Bank also ranked third in the pension fund business through its subsidiary Yapı Kredi Emeklilik with approximately 15.5% and 16.0% market shares as of 31 December 2010 and 30 June 2011, respectively, according to Capital Markets Board statistics.

The private banking division provides a wide range of products and services, including 25 different type mutual and other forms of funds, 12 different type capital guaranteed funds (that are currently within their investment period), hedge funds, pioneer funds, fund of world funds, manage fund account, bills & bonds, Eurobonds, equity, TurkDex, Varant and structured products. The Bank uses CRM modelling tools in order to define eligible customers for different types of products such as securities, derivative products (forwards, futures and options), foreign exchange, gold and equity

trading, insurance products, safe deposit boxes and e-banking services. The Bank also has affiliates and subsidiaries, which provide investment, advisory and portfolio management services, supported by the Bank's relationship with UniCredit and its subsidiaries. The Bank also offers various advisory services through different and specialised business partners such as tax advisory through Deloitte, art advisory through Yapı Kredi Culture and Art, inheritance advisory through Gür Law Firm and real estate advisory through Yapı Kredi Brokerage. Private banking customers are also entitled to a number of services such as 24-hour emergency ambulance service and have access to seminars on pertinent issues relevant to their financial interests, including investments, financial markets and taxation and are kept informed on the economy and capital markets through daily e-mails containing financial planning advice, investment recommendations and legal updates.

Yapı Kredi Invest (Yapı Kredi Yatırım)

Yapı Kredi Invest was founded in 1989. With central sales in Istanbul, investment centres in Ankara, İzmir, Adana, Bursa, Balıkesir, Antalya, Marmaris, Aydın, Kayseri, Trabzon and Samsun, and an internet branch, Yapı Kredi Invest provides capital market products, brokerage, corporate finance, derivatives and investment advisory services to more than 54,000 active customers as of 31 December 2010. Yapı Kredi Invest has applied to the CMB for an authorisation to undertake leveraged foreign currency trading operations. The CMB has granted Yapı Kredi Invest a temporary license, which is expected to be followed by a permanent license soon.

In 2010, Yapı Kredi Invest was the leader among brokerage houses on the Istanbul Stock Exchange in terms of total transaction volume, with 18% market share, according to Istanbul Stock Exchange Monthly Bulletin. Yapı Kredi Invest ranks third among brokerage houses, with TL75 billion trading volume, and 5.5% market share of the equity market as of 30 June 2011, according to Istanbul Stock Exchange Data Publications. In 2010, Yapı Kredi Invest generated TL36 billion trading volume and 4.2% market share in the derivative market, according to Turkdex Data Publications. As of 30 June 2011, Yapı Kredi Invest generated TL15 billion trading volume and 3.3% market share.

Yapı Kredi Asset Management (Yapı Kredi Portföy)

Established in 2002, Yapı Kredi Asset Management provides customers with mutual funds, private pension funds and discretionary portfolio management products together with portfolio advisory and private fund establishment services. Yapı Kredi Asset Management provides services throughout the country through its head office in Istanbul and the Bank's branch network. It had 57 employees as of 30 June 2011.

As of 30 June 2011, Yapı Kredi Asset Management offered 38 mutual funds and had total assets of approximately TL9 billion, as compared with total assets of approximately TL8 billion as of 31 December 2010. Its total market share for mutual funds stood at approximately 17.4% as of 30 June 2011, according to Capital Markets Board statistics.

Yapı Kredi Asset Management also provides management services to 24 private pension funds. It had approximately 20% market share in private pension funds in Turkey, according to Capital Markets Board statistics, with assets under management of approximately TL2.7 billion as of 30 June 2011.

Yapı Kredi Asset Management provided discretionary portfolio management services to 313 customers as of 30 June 2011, of which 19 were institutional and 294 were high income individual investors. Yapı Kredi Asset Management's assets under management in its discretionary portfolio management services were approximately TL884 million as of 30 June 2011.

Yapı Kredi B-Type Investment Trust

Established in 1995, Yapı Kredi B-Type Investment Trust provides portfolio management services through trading capital market instruments listed on domestic and international markets. Yapı Kredi Investment Trust is Turkey's second largest investment trust with 10% market share as of the end of 2010, according to BRSA statistics. Yapı Kredi Investment Trust is a public company and its shares are quoted on the Istanbul Stock Exchange.

Corporate and Commercial Banking

The Bank is one of the leading corporate and commercial banks in Turkey, with a focus on cash management, project finance and trade finance. As of 30 June 2011, the Bank had approximately 1,400 corporate clients and 31,300 active commercial clients. Corporate and commercial customers are segmented mainly by the value of their annual turnover. Commercial customers are companies with an annual turnover of U.S.\$5 million to U.S.\$100 million, while corporate customers are companies with an annual turnover of more than U.S.\$100 million. Companies with turnover of less than U.S.\$5

million are considered part of the Bank's SME segment and are managed within the retail banking division.

Following the introduction of the Bank's new organisational structure in February 2009, corporate and commercial banking, which were previously separate, were brought together. The Bank's leasing and factoring departments and international banking operations were also brought together under corporate and commercial banking. Recently, the Bank introduced new segmentation criteria for its corporate and commercial clients to better address their needs and provide tailored, client-specific services more efficiently. These criteria are based on the company's size and behaviour benchmarks such as the company's turnover (for potential client value), its international aspects (in order to assess the complexity of the relationship with the client), outstanding systems (to assess the size and complexity of the client's financial needs) and trade finance (as an indicator of the complexity and size of the client's business needs).

As of 30 June 2011, the Group's lending to the corporate and commercial sector comprised 63% of its total loan portfolio, while deposits from corporate and commercial customers comprised 37% of the Group's total deposits.

As of 30 June 2011, the Bank was the market leader among commercial banks in terms of non-cash lending (comprising domestic and international letters of guarantee, letters of credit and acceptances) in Turkey.

The Bank provides additional services to its corporate customers including working capital financing, foreign trade finance, project finance, a variety of domestic and international non-cash credit line facilities such as letters of credit and guarantees, cash management, investment banking and brokerage services, factoring, leasing and insurance services. In addition, in non-cash loans, the Bank provides both domestic and foreign currency facilities to its customers, principally comprising guarantees in relation to imports and letters of credit in respect of trade financing activities.

Project Finance

The Bank has been active in the provision of project finance loans and syndicated loans in Turkey since 1999. Its project finance team comprises 12 staff specialising in energy, real estate and transportation projects, as well as acquisition finance.

In 2010, the Bank underwrote approximately TL2,662 million (U.S.\$1,763 million) of project finance loans, compared to approximately TL633 million for the year ended 31 December 2009 and approximately TL2,221 million for the year ended 31 December 2008. The maturity of project finance loans typically range from five to 12 years, with a maximum grace period of four years. The Bank continued to concentrate on the energy sector, particularly financing energy production, electricity transmission and distribution projects as well as thermal and renewable energy power plants and large dam and hydroelectric power plant projects. The Bank underwrote approximately TL1,462 million (U.S.\$931 million) project finance loans during the first six months of 2011.

Cash Management

The Bank is a leading bank in cash management and e-banking. The Bank's cash management team offers a broad variety of products, including collection services, cash transfer services, electronic banking and operational services. Among the latest products introduced by the Bank were automated supplier finance system, labelled remittance (including 24 hour access through internet banking and ATM's), new version of the Banko™ Client programme for BANKO™-OHES, the preferred automated bulk payments system with over 4 million transactions in 2010, SWIFT FileAct and SWIFT Score, which are offered to corporate and multinational customers in particular. The Bank also maintains its leading position in traditional collection systems such as cheque clearing, direct debit volumes and public tax collections. The Bank's market share in cheque clearing services (according to the Central Bank Cheque Clearing House records) was 11.4% in 2010, representing a 0.5% increase from 2009.

International Banking

The Bank was one of the first Turkish banks to establish correspondent banking relationships and to undertake foreign business. The relationship management function for foreign financial institutions for the Bank is conducted by the Financial Institutions team. The Financial Institutions team also carries out functions including the following:

- provides presentations and insight on developments on the Bank and the Turkish economic and political environment to correspondent banks;

- discusses new products with correspondent banks and implements them within the Bank, in collaboration with the Trade Finance department, in order to gain access to new markets and improve service quality;
- engages in the international marketing of the Bank and its products;
- analyses the financial situation of banks and applies for credit lines for them; and
- arranges long-term structured borrowings in accordance with the Bank's projected borrowing needs.

Trade Finance

The Bank provides a variety of support services and payment management mechanisms to Turkish firms engaging in international trade transactions. These include advance payments, letters of credit (sight, deferred and acceptance), cash against documents, cash against goods, standby letters of credit, export financing (pre and post shipment), import financing, forfeiting and export credit insurance (export receivables backed financing guaranteed by Turk Eximbank and Coface Insurance), back-to-back letters of credit and transferable letters of credit.

In addition to traditional import and export products, the Bank offers its customers innovative and alternative foreign trade products and structured solutions. In order to increase pace of delivery and ease of use for customers, the Bank renewed its foreign trade transactions menu in the Bank's internet banking service and started the trade finance call centre service in 2009.

The Bank's trade finance unit provides direct support to the Bank's branches and foreign trade customers. The Bank is one of the Turkish trade finance sector's leading institutions with approximately 17,000 customers and a transaction volume of approximately U.S.\$37.5 billion. The Bank's trade finance unit monitors the import and export volumes and revenues of the Bank's clients and aims to provide tailor-made solutions. The Bank also relies on support from UniCredit in offering its trade finance services.

Trade finance products are offered through three dedicated corporate branches for large corporate customers, and through sales representatives at the commercial regions for small and medium-sized customers. The Bank has nine trade finance specialists who are responsible for sales support activities and monitoring of processes and finalisation of transactions. The Bank actively monitors the sales of trade finance products within the branches and sets targets for sales officers based upon the number of exporter customers undertaking trade finance transactions at the relevant branch.

Treasury

The Bank's treasury department consists of four major groups: Fixed Income, Money Market and Foreign Exchange, Strategic Development and Financial Monitoring and Treasury Marketing. It also manages the Bank's ongoing liquidity needs and controls its proprietary investment portfolio.

Fixed Income Securities

The Fixed Income group is primarily in charge of managing the Banks' local and foreign currency fixed income portfolios. The Bank is one of the 12 primary dealers accepted by the Undersecretariat of Treasury in Turkey. The Group also manages local currency deposits. The Bank's securities book largely consists of held to maturity portfolio, which reduces risk associated with fluctuations in the market value of trading securities. As of 31 December 2010 the Bank's securities portfolio amounted to 20.9% of its total assets. For a discussion of the Bank's securities portfolio, see "*Management's Discussion and Analyses of Financial Condition and Results of Operations—Securities Portfolio*".

The Bank had a 15.6% market share in securities trading on the Istanbul Stock Exchange for the year 2010 and 16.50% as of 30 June 2011, according to the Istanbul Stock Exchange.

Money Market and Foreign Exchange

The Money Markets and Foreign Exchange group is primarily involved in asset and liability management activities, interbank money market transactions and foreign exchange trading, including derivatives. The Bank's annual trading volume was U.S.\$322 billion for the year ended 31 December 2010, compared to U.S.\$262 billion and U.S.\$245 billion for the years ended 31 December 2009 and 2008, respectively. The Bank's interbank foreign exchange trade volume was approximately U.S.\$71.8 billion in 2010 and U.S.\$39.2 billion in the first quarter of 2011. Foreign exchange volume for client transactions denominated against Turkish Lira was U.S.\$47.9 billion in 2010 and U.S.\$25.2 billion for the first half of 2011. According to Reuters, the Bank was ranked third among Turkish banks and twelfth among international banks in Turkish Lira foreign exchange spot trading in 2010. As of

30 June 2011, the Bank also held 14.8% and 20.1% market shares in the domestic spot trading and forward markets, respectively.

The Money Market and Foreign Exchange group is also responsible for stabilising the interest income on the balance sheet and creating necessary funding for targeted asset growth purposes.

Strategic Development and Financial Monitoring

The Strategic Development and Financial Monitoring group is primarily responsible for monitoring the treasury department's performance and activities. This group also assists other groups within the treasury department with introducing new products.

Treasury Marketing

The Treasury Marketing group is the contact point for large scale corporate, commercial and private customers. The group advises and assists customers with managing risk exposures and hedging opportunities. The group completed approximately U.S.\$120 billion of transactions for customers in the year ended 31 December 2010, compared with approximately U.S.\$107 billion for the year ended 31 December 2009 and approximately U.S.\$88 billion for the year ended 31 December 2008.

Distribution Network

The Bank offers its banking products and services through an extensive distribution network, which includes both branches as well as advanced alternative delivery channels such as ATMs, call centres, internet banking and mobile banking.

Branches

As of 30 June 2011, the Bank has the fifth largest branch network in Turkey consisting of 887 branches in Turkey including one branch in Bahrain. While the Bank's branch network covers almost all regions in Turkey, there is a substantial concentration in the largest cities in Turkey including Istanbul, Ankara, Adana, Antalya, Izmir and Bursa. According to BRSA statistics, the Bank's market share in the 10 largest cities in Turkey as of 31 December 2010 and 30 June 2011 in terms of branches was 9.7% and 10.0%, respectively, compared to 9.2% and 9.1% across Turkey, respectively, with 68% and 68% of the Bank's branches being located in the 10 largest cities in Turkey, respectively.

The Bank has a number of different type branch, including standard, satellite and mobile which provide customers with a wide range of services. Of the Bank's branches, 746 are retail-related as of 30 June 2011, demonstrating the retail market orientation of the Bank. As of 30 June 2011, the Bank's corporate-commercial branch network consisted of 103 branches and the Bank's private banking network comprised 30 private banking centres, two private banking branches and two private banking corners.

Alternative Channels

The Bank uses three main alternative distribution channels: ATMs, internet and mobile banking and a 24-hour call centre, all of which rely upon the Bank's information technology platform. These channels allow customers to access services 24 hours a day and seven days a week. The cost of processing transactions through alternative distribution channels is lower than processing transactions through branches. Therefore the Bank encourages its customers to utilise these channels by offering promotions and reduced fees in return for customers using these channels instead of the branches. As of 30 June 2011 the Bank handles approximately 77% of transactions through alternative distribution channels.

ATMs

As of 30 June 2011 the Bank had the fifth largest ATM network in Turkey, comprising of 2,595 ATM machines, of which 76% were advanced ATMs with cash deposit functionality. 2.7 million retail customers and 0.2 million commercial and corporate customers actively use the Bank's ATMs. The Bank intends to continue to expand and improve the technology of its ATM network by deploying cash deposit feature ATMS (Tele24 Plus).

The Bank continues to focus on product innovation as the retail banking market matures in order to meet changing client needs and to better satisfy existing ones.

In 2008, the Bank launched "Enabled Banking", as Turkey's first service that offering disabled customers with easy access to banking services. The Bank redesigned call centres to assist hearing impaired customers by introducing text-to-speech technology. In 2009, the Bank installed in selected

locations enabled ATM's, which have been modified for orthopaedic impaired customers facilitating wheelchair access. In 2010, the first "talking ATMs" were launched, adding new features to enable blind and visually impaired customers to perform banking operations.

In 2010, the Bank presented "ATM with Keyboard" technology, providing an advanced facility for customers to add text and explanations for deposit and transfer transactions, such explanations are displayed on both the sender's and the receiver's account activities and statements. payments of motor vehicle taxes can also be paid using the ATM's alphanumeric keyboard for typing the letters of the licence plate.

Internet and Mobile Banking

As of 30 June 2011, the Bank had 1,609,653 retail customers and 329,166 corporate and commercial users as online banking customers (including active and inactive customers). The share of transactions executed through internet banking of total transactions increased to 21.7% in 2010, from 17.3% in 2009. The Bank has experienced increasing numbers of transactions and transaction volumes in recent years, mainly due to higher internet penetration rates globally and in Turkey, and significant marketing efforts of the Bank's internet banking services.

The Bank first launched internet banking with Teleweb in 2000. Internet banking services are currently rendered through internet banking, Wap Banking (Wireless Application Protocol) and SimPlus. Wap Banking can be accessed at wap.yapikredi.com.tr, whereas SimPlus Banking is an application installed to SIM cards and operates through SMS infrastructure. The Bank was also the first in the Turkish banking sector to provide financial information via mobile applications for iPhone, Android, iPad and Android tablet.

To ensure secure internet connections, the Bank offers One Time Password ("OTP") products through OTP Tokens, OTP Mobile (a JAVA application operating on mobile phones), OTP SMS (one time password sent via SMS), and Mobile Signature and Smart Pin (OTP produced through a credit card).

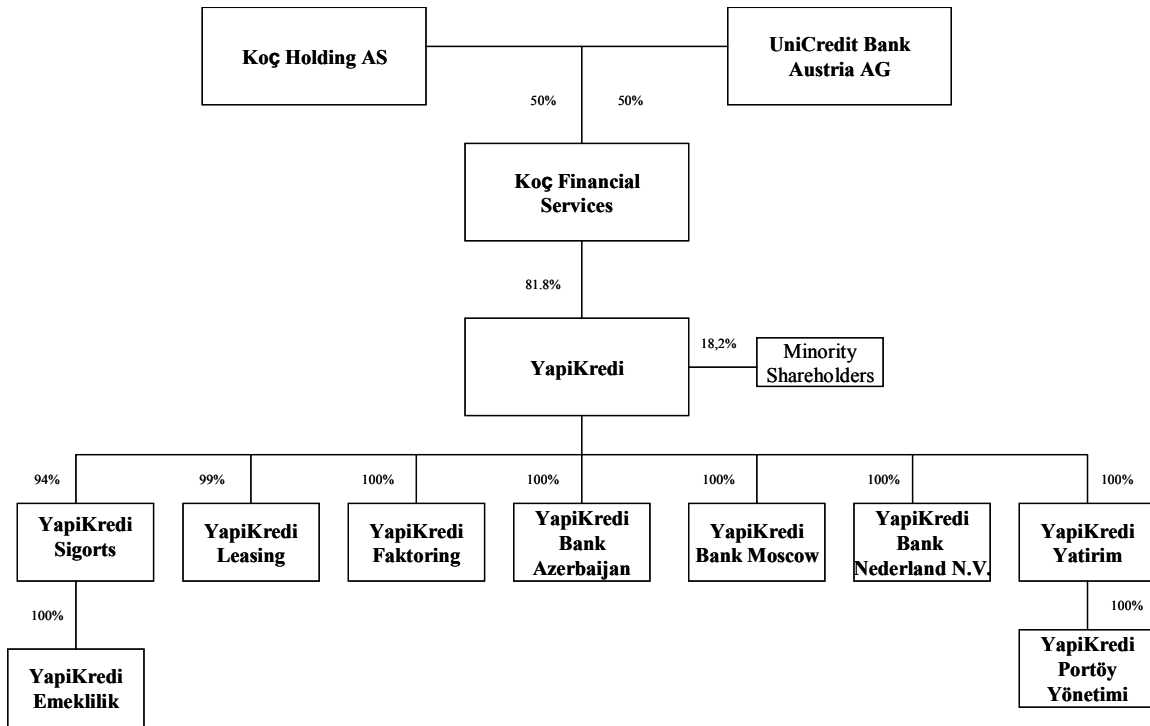
The Bank's internet banking system provides 24-hour customer service through live chat, call centres or email enquiries. The Bank's internet banking system received several awards in recent years for outstanding service and technology. Interactive Media Awards awarded the Bank the Best In Class award for www.adioscard.com.tr and www.ykprivate.com.tr websites in 2011. Global Finance World's Best Internet Bank Awards awarded the Bank "Best Bill Payment and Presentment" in 2011, and the Bank was also awarded the "Best Internet Banking Award" by Altın Örümcek (Golden Spider) Awards in 2011.

Call Centre

The Bank's award winning call centre is one of the largest financial call centres in Turkey in terms of agents and number of calls received. The call centre serves in a wide array of areas including credit cards, merchants, retail, SME, corporate, commercial and private banking, serving both individual and corporate customers. As of 30 June 2011, the call centre had a staff of 875 agents, located in two locations. This service is supported through technical infrastructure with the capacity to serve 1,500 customers simultaneously. In addition to being one of the most important service channels, the Bank's call centre has a significant role as a sales hub, with approximately 1.3 million sales, 272,000 retained customers and 150,000 returning customers.

Corporate Structure

The following chart presents the corporate structure of the Group and its shareholders.



Subsidiaries

Following the merger of Yapı ve Kredi Bankası A.Ş. and Koçbank in October 2006, certain financial subsidiaries of Koç Financial Services (“KFS”) and the Bank were rationalised and merged. Following is a description of the Bank’s primary operating subsidiaries.

Domestic Subsidiaries

Yapı Kredi Leasing

Yapı Kredi Leasing was established in 1987 and is 98.85% owned by the Bank. It has been listed on the Istanbul Stock Exchange since 1994. As of 30 June 2011, Yapı Kredi Leasing had shareholders’ equity of TL804.8 million, and had a market capitalisation of approximately TL757.9 million. The key role of Yapı Kredi Leasing is to develop and provide customers leasing products through the Bank’s wide branch network as well as 11 Yapı Kredi Leasing branches and representative offices.

Yapı Kredi Factoring

Yapı Kredi Factoring was established in 1999 and is 99.95% owned by the Group. Yapı Kredi Factoring provides factoring services in Turkey via its head office in Istanbul, representative offices in İzmir, Ankara, Bursa, Antalya and Adana as well as the Bank’s branch network all over the country. It had 65 employees as of 31 December 2010. Yapı Kredi Factoring offers its customers monitoring and collection of short-term domestic or international receivables from product or service sales, guarantees for receivables against payment defaults and flexible financing through early payments before the due date of the receivables. On the basis of turnover, Yapı Kredi Factoring has been the market leader in the factoring sector since 2001 and in 2010 held a 23% market share in total transaction volume and 30% market share in total export factoring volume. Yapı Kredi Factoring is a member of Factors Chain International and the Turkish Factoring Association.

Yapı Kredi Insurance (Yapı Kredi Sigorta)

Yapı Kredi Insurance was established in 1943 and is 93.95% owned by the Group. Yapı Kredi Insurance’s shares are traded on the Istanbul Stock Exchange. Yapı Kredi Insurance provides non-life insurance products directly and through the Bank’s branches including health insurance. According to the Association of the Insurance and Reinsurance Companies of Turkey, as of 31 December 2010, was the fifth largest non-life insurance company in Turkey, with a market share of 6.3%, and the

leader in health insurance, with a market share of 19.8%. In 2010, 22.4% of total insurance premia was received through the Bank's distribution channels.

Yapı Kredi Pension (Yapı Kredi Emeklilik)

Yapı Kredi Pension, founded in 1991 and fully owned by Yapı Kredi Insurance, is one of the sector leaders in the private pension and life insurance segments. Operating in conjunction with its majority shareholder, Yapı Kredi Insurance (which owns 99.93% of Yapı Kredi Pension), Yapı Kredi Pension provides private pension and life products through a wide network of 8 regional offices, 10 branches, 54 agencies in 33 cities, 133 agency firms as well as Yapı Kredi's wide branch network. According to the Pension Monitoring Center data as of 31 December 2010, Yapı Kredi Pension ranked third in terms of private pension fund size with a market share of 15.5%. According to the Association of the Insurance and Reinsurance Companies of Turkey, as of 31 December 2010, in terms of life insurance, the company ranked sixth with a market share of 5.0%.

Yapı Kredi Invest (Yapı Kredi Yatırım)

Yapı Kredi Invest was founded in 1989 and is 99.98% owned by the Bank. Yapı Kredi Invest provides capital market products, brokerage, corporate finance, derivatives, leveraged trading and investment advisory services. See “*Private Banking and Wealth Management—Yapı Kredi Invest*”.

Yapı Kredi Asset Management (Yapı Kredi Portföy)

Established in 2002 and 99.97% owned by the Bank, Yapı Kredi Asset Management provides customers with mutual funds, private pension funds and discretionary portfolio management products together with portfolio advisory and private fund establishment services. See “*Private Banking and Wealth Management—Yapı Kredi Asset Management*”.

Yapı Kredi B-Type Investment Trust

Established in 1995, Yapı Kredi B-Type Investment Trust provides portfolio management services through trading capital market instruments listed on domestic and international markets. 89% of the company shares are publicly owned and traded on the Istanbul Stock Exchange. See “*Private Banking and Wealth Management-Yapı Kredi B—Type Investment Trust*”.

International Subsidiaries

In addition to its network in Turkey, the Bank has subsidiaries in the Netherlands, Russia and Azerbaijan. The Bank also has a branch in Bahrain.

Yapı Kredi Bank Nederland

Yapı Kredi Bank Nederland N.V., a wholly owned indirect subsidiary of the Bank, is a bank subject to the supervision of De Nederlandsche Bank N.V. (The Dutch Central Bank) as well as the AFM (The Netherlands Authority for the Financial Markets). The bank was founded in 2007 as a result of the merger between Koçbank Nederland N.V. and Yapı Kredi Bank Nederland N.V. The bank operates through its head office in Amsterdam and offers a wide range of retail, corporate and private banking services as well as foreign trade financing. Its main objective is to provide banking solutions to domestic customers and also to the Bank customers from abroad. The focus of its corporate services is structured commodity finance and trade finance solutions. In terms of retail banking, Yapı Kredi Bank Nederland N.V. provides saving and deposit products in the Dutch retail market to more than 17,000 customers. As of 30 June 2011, the total assets of Yapı Kredi Bank Nederland N.V. amounted to €1,597 million, and the net profits for the first half of 2011 amounted to €4.4 million.

Yapı Kredi Bank Moscow

Yapı Kredi Bank Moscow was established in 1994 and is a wholesale commercial bank serving a growing number of companies operating in Russia. It is a 99.90% owned subsidiary of the Group serving around 1,500 customers through 70 employees and 4 branches, as of 31 December 2010. Yapı Kredi Bank Moscow continues to expand its operations in the Russian banking sector, with an emphasis on commercial lending, deposit taking, money market operations and foreign exchange transactions. Yapı Kredi Bank Moscow has opened several exchange offices and opened its first branch in Moscow in 2001. As of 30 June 2011, it had total assets of U.S.\$208.3 million.

Yapı Kredi Bank Azerbaijan

Koçbank Azerbaijan was established as a joint venture between Koçbank (80%) and the International Finance Corporation (“IFC”) (20%) in 2000. In 2006, KFS became the sole owner/acquired IFC's

interest. Koçbank Azerbaijan provides retail and corporate banking services to its customers, including loans, deposits, project finance, domestic and international money transfers, trade finance, equity market and securities transactions, credit card transactions, safe deposit box and travel cheques. Yapı Kredi Bank Azerbaijan operates through eight branches and as of 30 June 2011, it had 160 employees and 1,909 corporate customers, 1,238 SME customers and 32,720 retail customers, 17 ATMs and 86 POS terminals. As of 30 June 2011, the total assets of Yapı Kredi Bank Azerbaijan amounted to U.S.\$208.8 million, and the net profits for the first half of 2011 amounted to U.S.\$3.9 million.

Affiliate

Banque de Commerce et de Placements S.A.

Banque de Commerce et de Placements is a Swiss bank established in 1963 and is 30.67% owned by the Bank. The bank has been an affiliate of the Bank since 1996. It offers a wide range of banking services with four areas of expertise: structured trade finance, private banking, treasury services and correspondent banking. Headquartered in Geneva, the bank also operates through its branches in Luxembourg and Dubai.

Joint Venture

Yapi Kredi Koray Gayrimenkul Yatırım Ortaklığı A.Ş.

Yapi Kredi Koray Gayrimenkul Yatırım Ortaklığı A.Ş. is a real estate investment trust established in 1996. The trust is 30.45% owned by the Bank, 44.56% publicly quoted, and the remaining ownership is split between eight investors, none of which holds more than 10%. The trust is headquartered in Istanbul.

Competition

In recent years, the banking sector has become increasingly important to the Turkish economy and foreign banks have become increasingly involved in the sector.

As of 30 June 2011, there were a total of 42 banks licensed to operate in Turkey (excluding SDIF and four participation banks). According to the Turkish Banking Association, as of 30 June 2011, the five largest banks in Turkey held, in the aggregate, 59% of the banking sector's aggregate loan portfolio and 62% of aggregate banking sector assets in Turkey. Among the 10 largest banks, there are three state owned banks: Ziraat (ranked first), Vakıfbank (ranked sixth) and Halkbank (ranked seventh), which constitute 31% of the total banking sector assets.

Foreign banks have shown an increased interest in the banking sector in Turkey in recent years. Foreign banks such as BNP Paribas, Citigroup, Fortis, HSBC, ING, National Bank of Greece and UniCredit have acquired interests in Turkish banks. Currently, foreign ownership in the Turkish banking sector is approximately 40% (including shares traded by foreign investors in the stock exchange).

According to BRSA statistics, as of 30 June 2011 and 31 December 2010, 2009 and 2008, the Bank's market share in loans, deposits and assets were as follows:

	As of 30 June	As of 31 December		
	2011	2010	2009	2008
		(%)		
Loans.....	10.5	10.4	10.0	10.8
Deposits.....	8.6	8.6	8.1	9.4
Assets.....	9.0	8.8	8.1	9.0

Source: *Banking Regulatory and Supervisory Agency (BRSA)*

As of 30 June 2011 and 31 December 2010, according to BRSA statistics, the Bank was the fourth largest private bank in Turkey by total assets. The Bank's management views Garanti Bank, Akbank and İşbank as its main competitors.

As of 30 June 2011, the Bank held the leading market position in Turkey in credit cards with a market share of 18.2% in terms of outstanding volume (according to the Bank's BRSA financial

data), non-cash loans (with a 14.0% market share (according to the BRSA statistics)), leasing (with a 18.9% market share (according to the Turkish Leasing Association)) and factoring (with a 17.3% market share (according to the Turkish Factoring Association)). The Bank also has strong market positions in asset management (ranking second with a 17.4% market share (according to Rasyonet)), brokerage services (ranking third with a 5.5% market share (according to the Capital Markets Board)), private pension funds (ranking third with a 16.0% market share (according to the Pension Monitoring Center)) and life and non-life insurance (5.4% and 5.9% market shares respectively (according to the Turkish Insurance and Reinsurers Association)) as of 30 June 2011.

Employees

As of 31 December 2010 and 30 June 2011, the Group had 16,780 and 16,917 employees, respectively, of which 14,411 and 14,547 were employees of the Bank, respectively. The following table sets out the number of employees of the Group and the Bank as of 30 June 2011 and 31 December 2010, 2009 and 2008:

	As of 30 June	As of 31 December		
	2011	2010	2009	2008
Bank	14,547	14,411	14,333	14,795
Head office and operations	4,942	4,916	4,834	5,052
Branches	9,605	9,495	9,499	9,743
Subsidiaries	2,370	2,369	2,380	2,564
Total Group	16,917	16,780	16,713	17,359

The Bank's management believes that the Bank has a qualified workforce with appropriate educational backgrounds. All employees are trained in customer oriented service principles and are considered competent in technical banking applications. Women represented 63% of total employees, and the proportion of university graduates was 70% as of 30 June 2011. As part of the Bank's training strategy, the Bank employs new graduates and prepares them within the institutional culture for managerial positions.

Within the Bank, there are unionised employees, for whom a collective bargaining agreement (the "CBA") applies, in addition to Turkish labour laws and the Bank's personnel regulations, which apply to all of the Bank's employees. In total, 9,416 of the Bank's employees are member of the Union of Employees working at Banks and Insurance Companies (*Banka-Sigorta İşçileri Sendikası*) (the "Union"), amounting to 65% of all employees as of 30 June 2011. In mid-2011 the Bank renewed the CBA with the Union for a term of two years, under which the Bank undertakes to increase the salaries of its employees every six months in line with the increase rates of the Turkish CPI.

With respect to Union employees, the Bank's management and Union officials meet regularly to exchange information on working conditions. The Bank and the Union agree and sign new protocols to the CBA as necessary and four protocols have been signed in the first half of 2011. The Bank also provides additional benefits to its employees including group retirement plan, health insurance and welfare fund.

Information Technology

The Group's information technologies and operations departments are integrated in order to provide better service internally and improve the efficiency of core banking activities.

The Group maintains its operations and information technology infrastructure in order to support its growing business and minimise operational risk and business interruption. The Bank operates a 2,000 square metre information technology centre in Gebze, Kocaeli (43 kilometres from Istanbul), which serves as the hub of all of the Bank's technology functions and initiatives. The fully operational information technology centre provides services to the Bank's headquarters, branches and customers. The Bank has developed much of its software in-house, including its internet banking software, through its software development department.

The Group has developed and implemented procedures for emergency system and data restoration and maintains a separate disaster recovery center in Ankara, which has been in place since 1998. The

Group's main banking applications and all other key applications such as credit cards, ATMs, EFT, SWIFT, treasury functions, documentary letters of credit and the payments module are fully backed up on a daily basis. The Group maintains a remote online real time disaster recovery system, which is operated when the main production system or main data center is not available. The Group can transfer operations and re-route data lines through the disaster recovery system within thirty minutes. The disaster recovery center is tested on a bi-annual basis. This has enabled the Bank to be in full compliance with Basel II requirements for systems and data.

In 2010, the Bank undertook a number of IT projects to improve its technology infrastructure, including the introduction of the "IT Transformation and Process Optimization Program", aiming to strengthen the competitive position of the Bank and become a leader in operational efficiency and IT capability by 2012.

In 2011, the Bank developed an integrated module to redesign its cost and commissions collection application. Other substantial product development projects included enabling contactless payment transactions via mobile phones, implementing MasterCard Paymobile solution (which went live in April 2011) and implementing Visa iCarte solution for iPhone devices (currently piloted). The Bank's IT department has also developed a CRM system for private banking customers, defining customer profiles and tailoring customised advanced solutions.

The Bank continues to invest and develop new projects in order to maintain its position as a leading bank in Turkey in straight-through processing of international payments and advanced credit cards solutions.

Property

The Group owns or leases premises for its head office, branches and operations centres. As of 30 June 2011, the Group's fixed assets (comprising land, land improvements, buildings, computer hardware and other fixed assets) had a total net book value of TL 1,125.1 million (U.S.\$707.9 million) or 1.06% of the Bank's total assets. The net book value of the Group's land, improvements and buildings was TL811.9 million as of 31 December 2010. The Group owns its headquarters buildings in Istanbul and its operations centre in Gebze. As of 30 June 2011, the Bank owns approximately 19% of its branches and the rest are leased.

Insurance

The Group maintains insurance policies with levels of coverage it deems to the nature of its business. The Group's fixed assets, cash in transit and cash in hand are covered by general insurance arrangements covering normal risks. The Bank generally requires that real property assets owned by borrowers which form part of the collateral for loans the Bank makes are insured. The Bank does not have any credit risk insurance in relation to defaults by its customers as this type of insurance is generally not available in Turkey. The Group maintains insurance on its properties, including its head office and branches and personal property, with respect to such risks, including earthquakes and terrorist attacks, and in such amounts as the Group deems appropriate.

Legal Proceedings

From time to time, in the ordinary course of its business, the Group is party to legal proceedings, both as a plaintiff and a defendant. There are no legal proceedings pending, or to the Group's knowledge threatened, that may materially adversely affect the Group's business, results of operations or financial condition. As of 30 June 2011, the Bank recognised a provision of TL43,094 thousand in respect of legal proceedings.

Istanbul Commercial Court Litigation

The Bank is a defendant in a lawsuit filed by a Turkish company with respect to amounts collected by the Bank under an agreement for transfer of shares in exchange for a profit sharing arrangement following the bankruptcy of the company in 1992. The litigation commenced in 2005. In May 2010, the Istanbul Commercial Court issued a judgment against the Bank in the amount of TL25,000 thousand plus accrued interest. The Bank has filed an appeal and has provided a letter of guarantee in the amount of approximately TL150,000 thousand in respect of the original judgment (including accrued interest). The Bank believes that the likelihood of any cash outflows from the Bank as a result of this lawsuit is remote and therefore has not recorded any provisions in its financial statements as of 30 September 2011 in respect of this litigation.

Competition Board Investigation

The Bank, together with eleven banks operating in Turkey, is subject to an investigation by the Turkish Competition Board. Competition in Turkey is mainly regulated by Law No. 4054 on the Protection of Competition (the “**Competition Law**”). The Competition Law is enforced by the Competition Board, which has the power to investigate possible breaches and impose fines. In November 2011, the Competition Board announced that it had initiated an investigation of 12 major banks including Akbank, Garanti Bankası, Finansbank, HSBC Bank, ING Bank, TEB, Halkbank, Is Bank, Denizbank, Vakıfbank, Ziraat Bankası and the Bank, as well as two other financial institutions, with respect to allegations of collusion regarding loan prices between such entities, in breach of the Competition Law. The Bank has not set aside any provision in respect of this investigation, but may set aside provision in the future.

RISK MANAGEMENT

Risk Management Department

The Bank's risk management department functions independently from its commercial operations. Along with the Credit Committee and the Asset and Liability function of the Executive Committee, the risk management department is an integral part of ensuring the Bank's compliance with the Banking Law, with respect to measuring, monitoring and managing credit, market and operational risks.

The basic functions of the risk management department are to measure and manage risks in a manner consistent with the Bank's risk appetite. The risk management department is also responsible for: (a) maximising returns on invested capital and maintaining sustainable profit growth, (b) monitoring trends in risk exposures and communicating irregularities to senior management, (c) monitoring asset and liability profiles to allow the Bank to take rebalancing actions on a timely basis, (d) defining the risk structures of products, processes and services, (e) measuring the credit risk of the Bank's portfolio via rating models, and (f) ensuring the Bank's compliance with the Banking Law.

As of 31 July 2011, the risk management department had 37 employees, excluding retail, commercial and corporate credit departments. The main organisational functions of the department are credit risk control and operational risk management, credit risk management and market risk management.

Credit Risk Control and Operational Risk Management

Credit Risk Control involves the following key roles and responsibilities in the Bank: (a) establishing credit risk policies, defining the optimum composition of the overall loan portfolio and identifying risk positions within legal and Group limitations, (b) preparing credit risk budget in line with the Bank's risk appetite and lending targets, (c) monitoring the evolution of credit risk for all segments (including by industry, type and sector), preparing and presenting strategic credit risk related reports to the senior management (including the evolution of loan provisioning and comparison with peer banks), (d) calculating cost of risk and related provisions by segments to assess the underlying risk of the loan portfolio and maintain asset quality, and (e) providing support to, and coordinating the functions of, the Bank's subsidiaries with the aim of achieving loan portfolio with the best credit-worthiness possible, and ensuring the proper implementation of their credit, credit risk cost and budgeting processes, including preparing action plans for such subsidiaries to align implementation processes across the Group.

Credit policies establish the general credit risk principles to be followed throughout the Bank's credit activities and reflect its strategies and goals, as well as shareholders' risk appetite. The credit policy guidelines are prepared by the Bank's credit risk control and operational risk management department and approved by the Board of Directors.

The Operational Risk Management section of the Risk Management Department is responsible for the following tasks: (a) defining the Group's operational risk policy, (b) issuing guidelines for the measuring, evaluation and management of operational risks, and ensuring correct implementation both at Bank and subsidiary level, (c) developing and regularly updating the operational risk measuring and monitoring systems and models at Group level, (d) measuring and monitoring operational risks at Group level, (e) carrying out 'second level controls' for operational risks at Group level, (f) conducting work to ensure compliance with Basel II within area of operational risk, (g) managing the "Business Continuity Plan" of the Bank with particular responsibility for assuring the establishment and maintenance of the plan, and controlling and coordinating the various entities involved in the process, and (h) preparing action plans for operational risk mitigation and coordinating the implementation of such plans.

Credit Risk Management

Credit Risk Management is in charge of the following responsibilities: (a) defining and maintaining the operational credit risk policies of the Bank, i.e. the policies that are used in the daily credit processes, (b) measuring the credit risk of the portfolio by developing and validating PD (Probability of Default), EAD (Exposure at Default) and LGD (Loss Given Default) models, (c) defining the business specifications of all information technology tools used throughout the credit processes and the information technology systems where the information about credit risk is kept (e.g. limits, risks, collaterals, credit risk datamarts in the DataWarehouse), (d) evaluating new credit products and changes to existing credit products, (e) defining provisioning methodology in line with BRSA

principles and IFRS, and (f) leading the Basel II preparations at a Group level in anticipation of approaches by the Turkish Institutional Review Board.

Lending Policy

Lending Limits

According to the BRSA the definition of “large exposure” is an exposure exceeding 10% of the Bank’s capital base in light of BRSA credit conversion factors. The Bank’s total exposure to a single company or group cannot exceed 25% of the Bank’s capital base. Total exposure to Bank’s risk group (comprised of Koç Holding and UniCredit Group) cannot exceed 20% of the Bank’s capital base. The total of the Bank’s large exposures cannot exceed the Bank’s capital base by more than eight times. To date, the Bank has never exceeded these ratios. Further description of the applicable regulatory requirements is set out in “*Turkish Regulatory Environment – Lending Limits*”.

According to the Bank’s credit policy each individual sector should not exceed the targeted level of 10% on total portfolio. To date, the only industrial sector that exceeds this internal limitation is the construction sector, including non-cash lending. This sector also includes various sub-sectors, such as commercial real estate finance which constitutes a significant share. The credit policy defines “large exposure” as an exposure exceeding 5% of KFS’s consolidated capital base and/or an exposure in excess of EUR25 million. KFS’s total exposure to a single company or group cannot exceed 20% of KFS’s consolidated capital base.

Limit Structure

The Bank’s credit underwriting divides credits into to three risk categories. Category A (full risk) includes credit lines that are not directly and explicitly associated with a commercial transaction and are not self-liquidating, and 2medium/long-term credit lines (with maturity over 18 months) that are directly associated with a commercial transaction. Category B (commercial risk) includes all short-term trade/commercial related credit lines and which are not self-liquidating. Category C (self-liquidating risk) includes all credit lines supported with credit transfer and/or against a reimbursement predetermined procedure that is self-liquidating.

Approval Authorities

In general, the lowest level credit approval authority is the branch manager for corporate and commercial loans and the retail sales manager for SME loans. Up to given thresholds there is no involvement of credit departments at either branch or region levels.

For authorisations of credit above TL350 thousand (after taking rating and product co-efficients into account) for SMEs and TL1,000 thousand for Corporate and Commercial Banking, starting at the level of the Regional Manager, the credit department will be involved and their credit opinion is binding. If a credit opinion is negative, the credit proposal may either be passed on to a higher authority or not approved. The Bank’s branches and regions have a credit approval authority for products of up to 36 months.

Higher Credit and/or Reputation Risk Loans

Certain types of transaction entail a higher credit and/or reputation risk for the Bank and are therefore either discouraged or require a higher level of approval. Loans to political organisations (including the campaigns of political candidates), gambling organisations and sport clubs (including related businesses such as merchandising shops, selling of tickets and TV rights) are restricted by the Bank’s policies. The Bank applies higher levels of approval and a prudent approach towards loans in other sectors, such as ship building, media, health and arms and weapons dealing.

Approval at the head of sales department level is required for balloon/bullet loans, loans to governmental and municipal authorities, loans to holding companies, loans to real estate development companies, exclusive loans for an amount above U.S.\$1 million, bridge loans, loans to financial institutions, loans to hospitals and schools.

Approval at Credit Committee level is required for loans for the purposes of financing hostile takeovers, subordinated loans and mezzanine debt, financing dividend payouts, bridge loans (extended for future issuance of bonds), loans for purposes of back-to-back financing, refinancing shareholder loans and financing speculative transactions.

Approval at the Board of Directors level is required for loans to entities operating in the media sector (local or nationwide, TV/radio broadcasting, newspapers or internet broadcasting), for loans to

non-environmentally friendly companies and loans to companies involved in dealing in arms and weapons.

Corporate and Commercial Lending

Corporate and commercial underwriting is performed by three units: the Corporate Credit Underwriting Section, the Commercial Credit Underwriting Section and the Specialised Credit Underwriting Section. The Corporate Credit Underwriting Section considers credit applications of companies with an annual turnover above U.S.\$100 million or companies considered clients of the corporate Strategic Business Unit. The Commercial Credit Underwriting Section reviews credit applications of companies with an annual turnover between U.S.\$5 million and U.S.\$100 million. The Commercial Credit Underwriting Section is organised into 10 regions (five in Istanbul and five in Anatolia) in addition to the Bank's Head Office. The Specialised Credit Underwriting Section reviews structured finance proposals in the areas of energy, real estate, shipping and concessions, subsidiaries proposals and financial institutions proposals.

Retail Lending

Retail underwriting utilises rating models, decision trees and credit policies to evaluate the creditworthiness of applications. The data entry for credit card and individual loan applications is done centrally. Once the data entry is performed, inquiries to external sources (including the credit bureau and Central Bank and internal data sources (including customer information file and product performance) are run. Once the inquiries are completed, the data is sent to the decision engine, where scores are computed, decision trees and credit policies are checked and the final decision is provided. Loan-to-value ratios are 50% for individual loans (home equity loans and work place loans), 75% for mortgages, 80% for car loans and 70% for second hand car and heavy vehicle loans.

SME underwriting is performed by three sections divided based on geographical location. The SME Credit Underwriting Section is organised into nine regions (three in Istanbul and six in Anatolia) and in the Bank's Head Office. The rating system as well as the results from internal and external inquiries are the major parameters for credit decision in SME underwriting. Relevant external and internal information is gathered and fed into the underwriting tools automatically. New clients with bad ratings are being rejected automatically whereas clients with ratings up to certain thresholds are being approved automatically by the system.

Industry Sectors

The Group uses BRSA economic sector definitions to make comparisons with the banking sector wide figures. These definitions are also in line with NACE (European Classification of Economic Activities) classifications which are used within the EU. Through the Bank's credit policy, the Board of Directors sets the sectoral limits on lending, and these limits can only be altered by a decision from the Board of Directors. According to the Bank's credit policy, each individual sector should not exceed the targeted level of 10% of the overall corporate portfolio. Sector concentration is therefore monitored and reported on a regular basis.

The following table sets out the Group's interest earning assets by industry sector in TL thousands:

	Financial Institutions	Manufacturing	Real Estate	Wholesale and retail trade	Public Sector	Other Industries	Individuals	Total
Loans and advances to banks ..	3,372,107	—	—	—	—	—	—	3,372,107
Loans and advances to customers	1,559,751	13,400,928	353,052	2,622,144	1,292,231	20,302,579	18,273,469	57,804,154
Trading securities – debt securities.....	67,211	—	—	2,380	300,552	—	—	370,143
Derivative financial instruments	592,815	63,807	—	—	—	1,712	35,190	693,524
Hedging derivatives	38,201	—	—	—	—	—	—	38,201
Investment securities – debt securities.....	28,123	7,098	—	1,743	18,794,994	2,366	—	18,834,324
Other assets	890,928	—	—	—	20,566	602,284	100,117	1,613,895
As of 31 December 2010	6,549,136	13,471,833	353,052	2,626,267	20,408,343	20,908,941	18,408,776	82,726,348
As of 31 December 2009	7,030,477	9,623,448	365,798	1,992,866	16,297,317	13,747,381	14,420,938	63,478,225
As of 31 December 2008	5,371,448	10,451,083	266,600	2,121,419	15,889,129	14,089,691	13,911,448	62,100,818
Letter of guarantees	1,377,943	5,152,338	224,383	1,178,372	—	6,953,751	60,676	14,947,463
Letter of credits	591,759	2,982,624	47,905	166,099	—	210,818	668	3,999,873
Acceptance credits	—	144,596	—	15,146	—	6,055	—	165,797
Other commitments and contingencies	—	532,419	8,960	21,604	—	16,437	—	579,420
As of 31 December 2010	1,969,702	8,811,977	281,248	1,381,221	—	7,187,061	61,344	19,692,553
As of 31 December 2009	1,175,234	7,235,143	155,613	1,192,766	—	6,527,890	86,343	16,372,989
As of 31 December 2008	991,540	7,005,125	261,034	1,262,671	—	6,938,166	73,937	16,532,473

Geographic Sectors

The following table sets out the Group's interest earning assets by geographic exposure in TL thousands:

	Turkey	Italy	Other EU	Other	Total
Geographic concentrations of total assets:					
Cash and balances with central banks	5,903,486	—	34,184	96,756	6,034,426
Loans and advances to banks	2,314,377	1,368	722,111	334,251	3,372,107
Financial assets held for trading					
Trading securities	376,391	—	200	—	376,591
Derivative financial instruments	126,542	—	503,675	63,307	693,524
Hedging derivatives	—	—	38,201	—	38,201
Loans and advances to customers, net					
Credit cards	8,491,792	—	—	504	8,492,296
Consumer	9,763,649	—	312	17,212	9,781,173
Corporate	34,076,338	26,437	314,366	1,316,259	35,733,400
Leasing	1,955,479	—	5,381	18,039	1,978,899
Factoring	1,818,386	—	—	—	1,818,386
Investment securities					
Available for sale	5,533,639	—	243,453	104,664	5,881,756
Held to maturity	12,822,164	—	140,516	12,264	12,974,944
Investment in associates and joint ventures	—	—	—	94,171	94,171
Goodwill	1,023,528	—	—	—	1,023,528
Other intangible assets	262,453	—	—	1,214	263,667
Property and equipment	1,146,094	—	607	16,379	1,163,080
Deferred income tax assets	474,600	—	—	1,589	476,189
Other assets	1,558,718	3,446	25,719	26,012	1,613,895
As of 31 December 2010	87,647,636	31,251	2,028,725	2,102,621	91,810,233
As of 31 December 2009	67,113,932	14,173	2,310,441	1,297,484	70,736,030
As of 31 December 2008	65,558,736	221,142	1,929,355	1,983,169	69,692,402
Letter of guarantees	13,549,504	412,629	462,069	523,261	14,947,463
Letter of credits	3,063,254	41,391	383,736	511,492	3,999,873
Acceptance credits	149,543	—	2,110	14,144	165,797
Other commitments and contingencies	576,358	—	3,062	—	579,420
As of 31 December 2010	17,338,659	454,020	850,977	1,048,897	19,692,553
As of 31 December 2009	14,648,811	228,845	564,614	930,719	16,372,989
As of 31 December 2008	14,707,194	234,477	828,714	762,088	16,532,473

Probability of Default Rating Models

Since 2002, the Bank has employed an internal rating model for measuring the risk of its corporate and commercial clients. The rating model has been subject to ongoing validation, which led to its complete redevelopment in 2010 dividing the ratings model into two separate models for existing and new clients. For existing clients, the Bank utilises financial information, qualitative criteria, internal behavioural information and information of the Central Bank. For new clients the Bank utilises financial information and qualitative criteria. Internal rating models integrated within the underwriting process assign a probability of default for each borrower, classifying them under a scale of 17 grades. The outcomes of rating models reflect the riskiness of each rated customer, and generic provisions are set aside in accordance with each performing client's rating.

Since 2002, probability of default rating models are also used for home loans, general purpose loans, car loans, home improvement loans, overdrafts and credit cards. Since April 2011, internally developed application models have been used for these segments.

Twelve application scorecards are used to measure the creditworthiness of SME clients. The models classify clients in 23 rating classes and assign a probability of default to each borrower. These models use information acquired from both internal and external sources, as well as data compiled by relationship managers while preparing proposals. The first versions of the models were developed and implemented in 2009. In 2010, a new generation of more accurate scorecards, has been developed and was implemented in March 2010.

For commercial and SME clients new behavioural scorecards were developed at the beginning of 2010. The behavioural scorecards are rating models that are aimed at measuring the credit worthiness of clients. The use of such scorecards was implemented in July 2010 and is intended to act as a warning and to start the monitoring process within the Bank. These behavioural scorecards are updated on a monthly basis.

These differentiated evaluation methodologies and processes based on market segments give the Bank the ability to measure, manage and monitor credit risk in a more accurate way.

Taking into consideration the scoring models, the Group classified credit portfolio into the following groups as of 31 December 2010:

As of 31 December 2010		
	Loans and advances (%)	Provision Coverage (%)
Group's Rating		
1. Performing loans neither past due nor impaired	93.31	1.20
2. Watch listed – individually impaired	3.11	5.81
3. Legal follow up – individually impaired	3.58	74.19
	100.00	3.96

Loan Monitoring

Corporate and Commercial Loan Monitoring

The Bank monitors credit risk for each of its existing corporate and commercial clients. These functions are performed by the Corporate and Commercial Credit Monitoring Unit. The main target of the credit risk monitoring process is the ability to take timely action in respect of any deterioration in the financial position of any corporate or commercial borrower. The monitoring process for commercial clients is based on behavioural scorecards, which are intended to identify the borrowers whose creditworthiness has deteriorated.

Retail Loan Monitoring

On the basis of scorecards, the SME Credit Monitoring Unit analyses the performance of SME clients whose creditworthiness has deteriorated in order to take any necessary precautionary measures.

Individual instalment loans are considered delinquent if there is no payment on an instalment on the due date. Credit cards are identified as delinquent if the minimum payment is not received within 10 days after the billing date. Overdrafts are identified as delinquent if there is no payment at the end of each relevant month. Following 30 days of delinquency on credit cards and consumer loans, such loans are added to the watch list and monitored. Provision rates are defined by the risk management department for those on the watch list.

Work-Out Process

If a commercial or SME loan is delinquent for more than 90 days, all commercial loans of that company or SME are categorised as non-performing loans in accordance with a BRSA resolution.

The workout period may start earlier, following a negative intelligence report even in cases the loan has been delinquent for less than 90 days. The Corporate and Commercial Loan Monitoring Department has the authority to trigger non-performing loan actions for companies to which the Bank has an exposure of over TL25,000.

Loan Loss Provisioning Policy

For purposes of loss provisioning the loans are divided into five groups.

- 1st group: Includes standard loans and other receivables, reimbursement of which has been made within the specified periods, for which no reimbursement problems are expected in the future, and which can be fully collected. No deterioration in the credit risk of the debtor been observed.
- 2nd group: Includes closely monitored loans and other receivables with respect which there is no problem at present but which the Bank believes should be more closely monitored for reasons such as decreasing solvency or cash flows of the debtor, significant financial risk carried by the debtor, or more generally, for which capital sum and interest repayments are likely to fail and the persistence of such problems might result in partial or full non-reimbursement risk.
- 3rd group: Includes loans and other receivables with limited collection ability. These include the loans for with respect to which the collection of the principal sum and/or interest has been delayed for more than 90 days but not more than 180 days from the due date.
- 4th group: Includes doubtful loans and other receivables with respect to which the collection of the principal and/or interest has been delayed for more than 180 days but not more than one year from the due date.
- 5th group: Includes loans and other receivables, which are considered as a loss. These include loans that are deemed to be uncollectable, or where collection of principal and/or interest has been delayed by one year or more from the due date.

In accordance with BRSA principles the Bank recognises a minimum provision of 1% of total of cash credits with standard quality (0.2% of total of letter of guarantees, sureties and other letters of credit) and 2% of total cash credits in close follow up (0.4% for letter of guarantees, sureties and other letters of credit).

In accordance with BRSA Principles, the Bank's loan provisioning policy provides that a provision should be at least 20% when a loan becomes categorised as being in the 3rd group, 50% upon classification as a 4th group and 100% upon inclusion in the category of 5th group. Further description of the applicable regulatory requirements is set out in "*Turkish Regulatory Environment – Loan Loss Reserves*".

The details of the loans and advances past due but not impaired which classified under the performing loans as of 31 December 2010, 2009 and 2008 are as follows:

	31 December 2010			
	Past due Up to 30 days	Past due 30-60 days	Past due 60-90 days	Total
	(TL, thousands)			
Corporate.....	448,165	41,554	869,663	1,359,382
Consumer.....	441,798	169,111	275,548	886,457
Credit cards	544,055	170,254	134,763	849,072
Leasing.....	5,033	4,826	3,805	13,664
	1,439,051	385,745	1,283,779	3,108,575

31 December 2009

	Past due Up to 30 days	Past due 30-60 days	Past due 60-90 days	Total
	<i>(TL, thousands)</i>			
Corporate.....	770,430	67,761	1,414,857	2,253,048
Consumer.....	451,145	197,350	164,609	813,104
Credit cards	599,665	190,055	221,445	1,011,165
Leasing.....	10,398	1,006	1,205	12,609
	1,831,638	456,172	1,802,116	4,089,926

31 December 2008

	Past due Up to 30 days	Past due 30-60 days	Past due 60-90 days	Total
	<i>(TL, thousands)</i>			
Corporate.....	520,891	165,170	40,346	726,407
Consumer.....	388,553	197,616	52,997	639,166
Credit cards	496,932	275,635	119,273	891,840
Leasing.....	12,620	9,748	598	22,966
	1,418,996	648,169	213,214	2,280,379

Loans and Advances Rescheduled

Restructuring activities include extended and rescheduled payment arrangements, approved external management plans, arrangement of loan terms, including modifications of payments (or deferral), interest rates, foreign exchange type or collateral structure. There can also be alternatives of granting additional loans or requiring or agreeing as to a sale of collateral, sales of debts or other assets.

Restructuring may be applied for watch-listed loans or loans in non-performing accounts. If restructuring is applied for a watch-list loan, than loan will remain classified as a performing loan even though its terms (foreign exchange rate, payment dates, interest rate etc.) may be changed.

On the other hand, if restructuring is applied for loans considered non-performing, the loan will continue to be classified as non-performing for at least six months following the restructuring and may be transferred to specified “restructured loan accounts” when at least 15% of the loan amount has been collected and a period of six months has elapsed following its restructuring. If an additional loan was granted during restructuring, then the 15% collection requirement becomes at least 30% of the total (existing plus additional loan). As of 31 December 2010, the total amount of restructured loans included in legal follow-up during the year was TL125,709 thousand, as compared to TL103,067 thousand as of 31 December 2009 and TL41,986 thousand as of 31 December 2008.

Restructuring policies and practice are consistent with the “*Communiqué Related to Principles and Procedures on Determining the Qualifications of the Banks’ Loans and Other Receivables and the Provision for These Loans and Other Receivables*” published by the BRSA.

Exposure to Credit Risk

The top 20 clients of the Bank mainly include leading conglomerates and state owned enterprises in Turkey. As of 30 June 2011 the share of the top 20 companies in terms of the total gross loans to companies amounted to 9.95%. The Bank has not experienced any deterioration in the credit quality of these clients.

The below table represents the Bank's maximum scenario of credit risk exposure:

	2010	2009	2008
	<i>(TL, thousands)</i>		
Credit risk exposure relating to assets on-statement of financial position:			
Loans and advances to banks	3,372,107	3,796,084	3,310,548
Loans and advances to customers			
Credit cards.....	8,492,296	7,261,231	7,490,155
Consumer	9,781,173	7,061,502	6,341,199
Corporate	35,733,400	24,225,811	24,905,967
Leasing	1,978,899	2,169,054	2,692,154
Factoring.....	1,818,386	1,419,999	1,040,508
Financial assets held for trading:			
Debt securities.....	376,591	365,923	396,464
Derivative financial instruments	693,524	617,704	433,651
Hedging derivatives	38,201	128,631	—
Investment securities – debt securities			
Available for sale	5,881,756	2,029,573	1,854,737
Held to maturity	12,974,944	13,318,719	12,705,781
Other assets.....	1,475,245	1,040,050	821,742
Credit risk exposure relating to off-statement of financial position:			
Credit related commitments	18,947,336	15,821,910	15,876,389
Other.....	745,217	551,079	656,084

Rating of Debt Securities:

	2010		2009		2008	
	Trading securities	Investment securities	Trading securities	Investment securities	Trading securities	Investment securities
	<i>(TL, thousands)</i>					
Moody's credit rating model Financial assets:						
Aaa	—	70,309	—	90,523	—	36,158
Aa	—	—	190	28,618	—	164,852
Aa2	200	27,266	—	—	—	—
Aa3	—	457,300	—	—	—	—
A2	—	304,986	—	—	—	—
A3	—	163,210	—	—	—	—
Baa	—	—	—	100,901	35,364	62,641
Baa1.....	—	91,310	—	—	—	—
Baa2.....	—	189,873	—	—	—	—
Baa3.....	—	33,730	—	—	—	—
Ba1	—	32,092	—	—	—	—
Ba2 ⁽¹⁾	311,991	17,194,168	227,149	13,929,689	—	—
Ba3	—	41,854	46,729	1,117,035	300,308	14,176,139
Unrated	57,952	228,226	52,892	54,596	43,205	78,465
Total	370,143	18,834,324	326,960	15,321,362	378,877	14,518,255

(1) Securities consist of the government bonds and treasury bills of the Republic of Turkey, Ba3 rated items in 2010 consist of corporate bonds with individual rating.

Market Risk Management

As part of a financial group Bank is constantly exposed to interest rate, liquidity and foreign exchange risks. The Bank's market risk policy provides for guidelines with respect to the market risk management and binding limit structure as well as defines roles and responsibilities of the various

teams involved. Market risk is managed based on the treatment of the Bank's banking and trading books. The banking book consists of all assets and liabilities arising from commercial activities, and is sensitive to interest rate and foreign exchange movements. The trading book includes positions held for trading, client servicing purposes or for keeping the Bank's market-making status. The Bank's market risk management strategy, policies and guidelines are based on UniCredit Group standards as well as with the Turkish regulatory rules and procedures.

The Bank's trading activity is realised on foreign exchange and securities, which are tolerated within predefined limits. Risk limits are set in terms of end-of-day and intra-day position basis, as well as value at risk ("VaR"), monitored on a daily basis. Monitoring of trading activity is performed daily through reports prepared by the market risk management department, which show VaR positions and stop-loss limits, in addition to back-testing profit and loss figures. This report is then sent to the Bank's executive management, the Treasury department and the UniCredit risk management group.

The banking book's interest rate risk is measured monthly through the economic value perspective. Economic value sensitivity method which calculates the potential change in fair value of the Bank's interest rate positions resulting from a parallel upward or downward shift of the yield curve. As outlined in Basel II, this interest rate fluctuation is to be maintained within 20% of the Bank's core Tier I and Tier II capital. Interest rate swaps are utilised to mitigate the banking book interest rate risk resulting from the maturity mismatch. Besides Economic Value Sensitivity, an overall VaR, covering all balance sheet items and Basis Point Value ("BPV") methods are used to measure the structural interest rate risk. Structural foreign exchange position risk limits and VaR are also monitored daily and reported to executive management.

The Bank monitors liquidity risk daily, paying particular attention to keeping enough cash and cash equivalent instruments to fund increases in assets, unexpected decreases in liabilities, as well as meeting legal requirements, while optimising the cost of carrying any excess liquidity. The liquidity policy provides guidelines to quantify the liquidity position and achieve a sound balance between profitability and liquidity needs. Liquidity risk limits are set both for short-term and structural (long-term) liquidity positions. The Bank has its own liquidity contingency plan on liquidity management. As a part of the UniCredit group, the Bank is included in the UniCredit group liquidity contingency plan. Moreover, the Bank maintains the majority of its securities portfolio as marketable, thus facilitating access to repo market as and when short liquidity is needed.

The Bank's derivative instruments are limited to financial instruments such as forwards, swaps, futures and options in foreign exchange and capital markets. These transactions are considered effective economic hedges under the Group's management policies.

As part of its management market risk, the Group undertakes various hedging strategies. The Group also enters into interest rate swaps to match the interest rate risk associated with the fixed rate long-term loans.

Fair value hedges

Since 1 March 2009, the Group has hedged the possible fair value effects of changes in market interest rates on part of its fixed interest TL mortgage and car loan portfolios, as well as changes in foreign exchange rates on part of its foreign currency borrowed denominated funds, using cross currency rate swaps. The net carrying value of hedging instruments as of 31 December 2010 amounted to a liability of TL279,454 thousand, compared to TL228,982 thousand in 2009 and none in 2008. As of 31 December 2010, the mark to market difference of the hedging instruments since the inception date of the hedge relationship was TL240,233 thousand, compared to TL147,649 thousand in 2009 and none in 2008, the fair value difference of the hedged item was TL224,429 thousand as of 31 December 2010, compared to TL140,137 thousand in 2009 and none in 2008, and their changes in fair value for 31 December 2010 amounted to TL84,292 thousand, compared to TL140,137 thousand in 2009 and none in 2008.

Cash flow hedges

The Group is exposed to fluctuations in future interest cash flows on non-trading assets and liabilities which bear interest at a variable rate. The Group uses interest rate swaps as cash flow hedges to guard against these interest rate risks.

In order to hedge its cash flow risk from liabilities, the Group has applied cash flow hedge accounting since 1 January 2010.

Net gain on cash flow hedges reclassified to the statement of income

The net gain/(loss) on cash flow hedges reclassified to the statement of income during the twelve month period ended 31 December 2010 was as follows:

	31 December		
	2010	2009	2008
Net interest income/(expense)	(65,061)	—	—
Taxation.....	13,012	—	—

For the year ended 31 December 2010, a loss of TL4,208 was recognised in the statement of income due to the ineffectiveness of cash flow hedges. No such loss was recorded in 2009 or 2008.

As of 31 December 2010, net losses arising from cash flow hedges recognised under equity, net of reclassification to statement of income and net of tax, was TL101,828. No such loss was recorded in 2009 or 2008.

Net investment hedges

The Group hedges part of the currency translation risk of net investments in foreign operations through currency borrowings.

The Group's Euro-denominated borrowing is designated as a hedge of the net investment in certain of the Group's Euro-denominated subsidiaries. The total amount of borrowing designated as a hedge of the net investment as of 31 December 2010 was EUR203 million compared to EUR191 million in 2009 and EUR169 million in 2008. The foreign exchange gain of TL15,587 in 2010, compared to a TL2,353 loss in 2009 and a TL57,440 loss in 2008, net of tax, on the translation of such borrowing to Turkish Lira at the statement of financial position date is recognised in "other reserves" in equity.

The major measurement technique used to measure and control market risk is outlined below.

Value-at-risk

The Group applies a VaR methodology to its trading portfolios, to estimate the market risk of positions held and the maximum losses expected, based on a number of assumptions for various changes in market conditions. The VaR limits are set by the Board of Directors and revised every year according to the budget and strategic plan of the Group. VaR limit compliance is monitored by risk management on a daily basis. Since 1 January 2009, these limits have not been exceeded.

VaR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the "maximum" amount the Group might lose, but only to a certain level of confidence (99%). There is therefore a specified statistical probability (1%) that actual loss could be greater than the VaR estimate. The VaR model of the Group assumes a one-day "holding period" until positions can be closed. The Group's assessment of past movements is based on data for the past 500 days. The Group applies these historical changes in rates, prices, indices, etc. directly to its current positions – a method known as historical simulation. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/factors used in the VaR calculation (back testing). The use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

As VaR constitutes an integral part of the Group's market-risk control regime, VaR limits are established by the Board of Directors annually for all trading portfolio operations. For investment positions, as well as for the held to maturity portfolio, risk appetite limits are applied (VaR/nominal position). Actual exposure against limits, together with a consolidated group-wide VaR, is reviewed daily by risk management. Average daily VaR for the trading portfolio of the Group for the twelve month period ended 31 December 2010 was TL1,269 thousand, compared to TL2,526 thousand for the twelve month period ended 31 December 2009.

The quality of the VaR model is continuously monitored by back testing the VaR results for trading books. All back testing exceptions are investigated, and results are reported to the monthly meetings of the Asset and Liability Management function within the Executive Committee.

The below tables set out Group's trading portfolio and non-trading portfolio VaR by risk type for the twelve months period in 2010, 2009 and 2008 in TL thousands:

(a) *Total trading and non-trading portfolio VaR by risk type*

12 months to Reporting Date (2010)			
	Average	High	Low
Foreign exchange risk	634	1,123	408
Interest rate risk of securities.....	85,474	136,642	51,963
Equities risk	—	—	—
Total VaR	78,028	107,545	55,048

12 months to Reporting Date (2009)			
	Average	High	Low
Foreign exchange risk	622	2,260	162
Interest rate risk of securities.....	153,970	247,332	86,478
Equities risk	—	—	—
Total VaR	155,048	246,084	94,778

12 months to Reporting Date (2008)			
	Average	High	Low
Foreign exchange risk	310	752	94
Interest rate risk of securities.....	138,129	363,296	75,249
Equities risk	—	—	—
Total VaR	125,824	404,636	73,141

(b) *Trading portfolio VaR by risk type*

12 months to Reporting Date (2010)			
	Average	High	Low
Foreign exchange risk	634	1,123	408
Interest rate risk of trading securities.....	635	1,545	222
Equities risk	—	—	—
Total VaR	1,269	2,668	630

12 months to Reporting Date (2009)			
	Average	High	Low
Foreign exchange risk	622	2,260	162
Interest rate risk of trading securities.....	1,904	4,344	333
Equities risk	—	—	—
Total VaR	2,526	6,604	495

12 months to Reporting Date (2008)			
	Average	High	Low
Foreign exchange risk	310	752	94
Interest rate risk of trading securities	1,919	7,798	321
Equities risk	—	—	—
Total VaR	2,229	8,550	415

(c) *Non-trading portfolio VaR by risk type*

12 months to Reporting Date (2010)			
	Average	High	Low
Foreign exchange risk	—	—	—
Interest rate risk of investment securities	76,759	105,365	54,206
Equities risk	—	—	—
Total VaR	76,759	105,365	54,206

12 months to Reporting Date (2009)			
	Average	High	Low
Foreign exchange risk	—	—	—
Interest rate risk of investment securities	152,522	242,998	91,231
Equities risk	—	—	—
Total VaR	152,522	242,998	91,231

12 months to Reporting Date (2008)			
	Average	High	Low
Foreign exchange risk	—	—	—
Interest rate risk of investment securities	123,595	399,821	62,455
Equities risk	—	—	—
Total VaR	123,595	399,821	62,455

Stress tests

Stress tests provide an indication of the potential size of the losses that could arise in extreme conditions. The stress tests carried out by risk management, also indicated in the market risk policy of the group, include: foreign exchange and interest rate stress testing, where stress movements are applied to the foreign exchange position and to the banking book. The results of the stress tests are reviewed by the Asset and Liability Management function within the Executive Committee.

Foreign exchange risk

Foreign exchange exposure is the result of the mismatch of foreign currency denominated assets and liabilities (including foreign currency indexed ones) together with exposures resulting from off-balance sheet foreign exchange derivative instruments. The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The limits are set by Board of Directors on the level of exposure in aggregate for both overnight and intra-day positions, which are monitored on a daily basis. The Bank performs periodic stress tests on foreign currency VaR by implementing different scenarios. These stress tests scenarios are periodically renewed and monitored in accordance with market volatility.

The tables below set out the Group's exposure to foreign currency exchange rate risk as of 31 December 2010, 2009 and 2008. The table includes Group's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet gap represents the difference between the notional amounts of purchase and sale of foreign currency derivative financial instruments.

As of 31 December 2010						
	Foreign Currency					
	U.S.\$	EUR	Other	Total	TL	Total
	(thousands)					
Assets						
Cash and balances with central banks.....	580,667	2,799,528	95,920	3,476,115	2,558,311	6,034,426
Loans and advances to banks	1,218,798	397,656	73,069	1,689,523	1,682,584	3,372,107
Financial assets held for trading						
– Trading securities.....	10,229	50,969	—	61,198	315,393	376,591
– Derivatives financial instruments.....	49,625	14,871	6,250	70,746	622,778	693,524
Loans and advances to customers ⁽¹⁾	15,060,611	8,443,658	682,800	24,187,069	33,617,085	57,804,154
Hedging derivatives	3,738	—	—	3,738	34,463	38,201
Investment securities						
– Available for sale.....	1,323,106	76,327	53,680	1,453,113	4,428,643	5,881,756
– Held to maturity.....	6,880,673	774,441	—	7,655,114	5,319,830	12,974,944
Investment in associates and joint ventures	—	—	71,906	71,906	22,265	94,171
Goodwill	—	—	—	—	1,023,528	1,023,528
Other intangible assets.....	—	—	1,214	1,214	262,453	263,667
Property and equipment	—	607	16,379	16,986	1,146,094	1,163,080
Deferred income tax assets.....	—	—	1,589	1,589	474,600	476,189
Other assets.....	348,546	333,668	255,369	937,583	676,312	1,613,895
Total assets	25,475,993	12,891,725	1,258,176	39,625,894	52,184,339	91,810,233
Liabilities						
Deposits from banks.....	2,736,367	1,409,572	251,314	4,397,253	538,217	4,935,470
Customer deposits	13,874,813	7,076,309	749,046	21,700,168	31,790,782	53,490,950
Funds borrowed	3,355,373	6,778,604	57,961	10,191,938	2,423,004	12,614,942
Debt securities in issue	844,040	550,864	—	1,394,904	—	1,394,904
Derivative financial instruments	50,258	8,482	6,206	64,946	294,222	359,168
Financial liabilities designated at fair value	—	—	—	—	—	—
Current income taxes payable	—	180	—	180	122,346	122,526
Deferred income tax liabilities....	—	2,132	—	2,132	—	2,132
Hedging derivatives	101,638	—	—	101,638	352,025	453,663
Other provisions	—	412	—	412	456,773	457,185
Retirement benefit obligations....	—	2,737	—	2,737	936,999	939,736
Insurance technical reserves.....	257,022	59,204	12	316,238	614,469	930,707
Other liabilities	486,280	457,858	12,904	957,042	4,208,044	5,165,086
Total liabilities	21,705,791	16,346,354	1,077,443	39,129,588	41,736,881	80,866,469
Net balance sheet position	3,770,202	(3,454,629)	180,733	496,306	10,447,458	10,943,764
Off-balance sheet derivative instruments net notional position	(4,821,403)	4,390,714	(22,028)	(452,717)	4,459,888	4,007,171
Net foreign currency position	(1,051,201)	936,085	158,705	43,589	14,907,346	14,950,935

(1) Collective impairment allowance of TL206,393 thousand calculated on foreign currency denominated loans is presented as TL balance in the above currency position table.

As of 31 December 2009

	Foreign Currency					
	U.S.\$	EUR	Other	Total	TL	Total
	(thousands)					
Assets						
Cash and balances with central banks.....	88,474	2,306,349	50,239	2,445,062	1,784,273	4,229,335
Loans and advances to banks	764,160	827,321	78,069	1,669,550	2,126,534	3,796,084
Financial assets held for trading						
– Trading securities.....	44,227	65,365	—	109,592	256,331	365,923
– Derivative financial instruments.....	—	—	—	—	617,704	617,704
Loans and advances to customers ⁽¹⁾	11,111,317	6,369,968	586,277	18,067,562	24,070,035	42,137,597
Hedging derivatives	—	—	—	—	128,631	128,631
Investment securities						
– Available for sale.....	937,685	70,587	81,434	1,089,706	939,867	2,029,573
– Held to maturity	5,986,127	1,275,991	504	7,262,622	6,056,097	13,318,719
Investment in associates and joint ventures	—	—	58,939	58,939	24,683	83,622
Goodwill	—	—	—	—	1,023,528	1,023,528
Other intangible assets.....	—	—	111	111	216,330	216,441
Property and equipment	—	615	16,315	16,930	1,139,253	1,156,183
Deferred income tax assets.....	—	541	1,333	1,874	480,929	482,803
Other assets.....	143,529	170,380	192,775	506,684	643,203	1,149,887
Total assets	19,075,519	11,087,117	1,065,996	31,228,632	39,507,398	70,736,030
Liabilities						
Deposits from banks.....	1,199,071	616,659	196,714	2,012,444	419,735	2,432,179
Customer deposits	11,504,089	6,994,241	740,414	19,238,744	22,942,642	42,181,386
Funds borrowed	1,512,248	5,658,712	43,017	7,213,977	1,417,159	8,631,136
Debt securities in issue	1,016,282	728,196	—	1,744,478	—	1,744,478
Derivative financial instruments	—	—	—	—	268,515	268,515
Financial liabilities designated at fair value	—	—	—	—	—	—
Current income taxes payable	—	653	—	653	68,383	69,036
Deferred income tax liabilities....	—	—	13	13	—	13
Hedging derivatives	—	—	—	—	357,613	357,613
Other provisions	—	7,012	—	7,012	390,859	397,871
Retirement benefit obligations....	—	1,938	—	1,938	962,603	964,541
Insurance technical reserves.....	264,935	55,513	—	320,448	546,356	866,804
Other liabilities	349,144	242,366	19,515	611,025	3,505,030	4,116,055
Total liabilities	15,845,769	14,305,290	999,673	31,150,732	30,878,895	62,029,627
Net balance sheet position	3,229,750	(3,218,173)	66,323	77,900	8,628,503	8,706,403
Off-balance sheet derivative instruments net notional position	(3,092,881)	3,385,106	112,263	404,488	4,072,515	4,477,003
Net foreign currency position	136,869	166,933	178,586	482,388	12,701,018	13,183,406

(1) Collective impairment allowance of TL352,501 thousand calculated on foreign currency denominated loans is presented as TL balance in the above currency position table.

As of 31 December 2008

	Foreign Currency					
	U.S.\$	EUR	Other	Total	TL	Total
	(thousands)					
Assets						
Cash and balances with central banks.....	89,623	2,696,534	76,159	2,862,316	1,854,700	4,717,016
Loans and advances to banks	1,225,854	1,584,284	247,183	3,057,321	253,227	3,310,548
Financial assets held for trading						
– Trading securities.....	115,548	82,541	—	198,089	198,375	396,464
– Derivative financial instruments.....	—	—	—	—	433,651	433,651
Loans and advances to customers ⁽¹⁾	11,182,602	6,555,605	593,652	18,331,859	24,138,124	42,469,983
Hedging derivatives	—	—	—	—	—	—
Investment securities						
– Available for sale.....	804,572	87,198	137,463	1,029,233	825,504	1,854,737
– Held to maturity.....	5,655,879	1,162,793	4,042	6,822,714	5,883,067	12,705,781
Investment in associates and joint ventures	—	—	55,593	55,593	31,354	86,947
Goodwill	—	—	—	—	1,023,528	1,023,528
Other intangible assets.....	—	—	124	124	179,573	179,697
Property and equipment	—	806	14,959	15,765	1,199,823	1,215,588
Deferred income tax assets.....	—	635	660	1,295	307,663	308,958
Other assets.....	196,261	111,680	77,745	385,686	603,818	989,504
Total assets	19,270,339	12,282,076	1,207,580	32,759,995	36,932,407	69,692,402
Liabilities						
Deposits from banks.....	320,128	405,518	146,985	872,631	210,210	1,082,841
Customer deposits	12,343,831	6,050,331	601,666	18,995,828	24,730,019	43,725,847
Funds borrowed	2,974,763	5,050,085	17,237	8,042,085	1,610,353	9,652,438
Debt securities in issue	1,095,020	871,278	—	1,966,298	—	1,966,298
Derivative financial instruments	—	—	—	—	220,782	220,782
Financial liabilities designated at fair value	66,434	—	—	66,434	—	66,434
Current income taxes payable	—	904	642	1,546	6,793	8,339
Deferred income tax liabilities....	—	—	—	—	1,030	1,030
Hedging derivatives	—	—	—	—	—	—
Other provisions	29,471	—	—	29,471	347,764	377,235
Retirement benefit obligations....	—	1,696	—	1,696	867,559	869,255
Insurance technical reserves.....	262,248	69,493	—	331,741	503,459	835,200
Other liabilities	190,331	472,187	19,626	682,144	3,165,544	3,847,688
Total liabilities	17,282,226	12,921,492	786,156	30,989,874	31,663,513	62,653,387
Net balance sheet position	1,988,113	(639,416)	421,424	1,770,121	5,268,894	7,039,015
Off-balance sheet derivative instruments net notional position	(1,992,079)	864,709	(256,540)	(1,383,910)	1,779,666	395,756
Net foreign currency position	(3,966)	225,293	164,884	386,211	7,048,560	7,434,771

(1) Collective impairment allowance of TL249,124 thousand calculated on foreign currency denominated loans is presented as TL balance in the above currency position table.

As of 31 December 2010, assets and liabilities denominated in foreign currency were translated into TL using a foreign exchange rate of TL1.5073 = U.S.\$1, and TL1.9978 = EUR1 (2009: TL1.4680 = U.S.\$1, and TL2.1062 = EUR1).

Interest rate risk

Cash flow interest rate risk is the risk that future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group is exposed to the effects of fluctuations in the prevailing levels of market interest rates in both its fair value and cash flow risks. Interest rate risk limits are set in terms of a total economic value sensitivity limit. Sensitivity analysis is performed according to a scenario of 4% shift in Turkish Lira yield curve and

2% shift in foreign exchange yield curve. The resulting profit/loss should not exceed 20% of the Bank's Tier I and Tier II Capital. Moreover, the BPV is applied for the banking book. The BPV limit restricts maximum interest rate risk position by currency and time buckets with valuation changes being based on an interest rate change of 0.01%.

In 2009 the Bank started to hedge a portion of its interest rate risk between its medium- and long-term fixed rate Turkish Lira loans (such as mortgages) and its Turkish Lira deposits, which have a relatively short maturity when compared to the Bank's assets. The Bank hedged this exposure by creating fixed rate medium/long-term Turkish Lira funding via cross currency interest rate swap contracts (U.S. dollars against Turkish Lira) and Interest Rate Swaps.

The below tables set out the Group's exposure to interest rate risk as of 31 December 2010, 2009 and 2008 in TL thousands. The table includes Group's assets and liabilities in carrying amounts classified in terms of periods remaining to contractual repricing dates.

As of 31 December 2010						
	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with central banks.....	—	—	—	—	6,034,426	6,034,426
Loans and advances to banks	2,282,807	385,433	402,066	2,710	299,091	3,372,107
Financial assets held for trading						
Trading securities.....	68,801	55,803	62,147	125,441	64,399	376,591
Derivative financial instruments.....	591,743	76,975	23,581	1,225	—	693,524
Loans and advances to customers	18,082,302	14,479,584	16,445,317	7,766,566	1,030,385	57,804,154
Hedging derivatives	9,298	28,903	—	—	—	38,201
Investment securities						
Available for sale.....	837,277	793,347	2,234,835	1,989,900	26,397	5,881,756
Held to maturity	4,194,347	822,733	2,169,162	5,788,702	—	12,974,944
Investment in associates and joint ventures	—	—	—	—	94,171	94,171
Goodwill	—	—	—	—	1,023,528	1,023,528
Other intangible assets.....	—	—	—	—	263,667	263,667
Property and equipment	—	—	—	—	1,163,080	1,163,080
Deferred income tax assets.....	—	—	—	—	476,189	476,189
Other assets.....	516,252	6,005	—	—	1,091,638	1,613,895
Total assets	26,582,827	16,648,783	21,337,108	15,674,544	11,566,971	91,810,233
Liabilities						
Deposits from banks.....	3,712,332	688,154	238,299	103,662	193,023	4,935,470
Customer deposits	42,833,680	933,971	366,958	30,530	9,325,811	53,490,950
Funds borrowed	7,741,590	4,028,093	312,164	533,095	—	12,614,942
Debt securities in issue	1,375,419	—	—	19,033	452	1,394,904
Derivative financial instruments	138,469	207,065	13,634	—	—	359,168
Financial liabilities designated at fair value	—	—	—	—	—	—
Current income taxes payable	—	—	—	—	122,526	122,526
Deferred income tax liabilities....	—	—	—	—	2,132	2,132
Hedging derivatives	173,886	279,777	—	—	—	453,663
Other provisions	—	—	—	—	457,185	457,185
Retirement benefit obligations....	—	—	—	—	939,736	939,736
Insurance technical reserves.....	30,695	76,694	297,790	123,616	401,912	930,707
Other liabilities	2,605,539	3,734	1,135	—	2,554,678	5,165,086
Total liabilities	58,611,610	6,217,488	1,229,980	809,936	13,997,455	80,866,469
Net interest repricing gap	(32,028,783)	10,431,295	20,107,128	14,864,608	(2,430,484)	10,943,764

As of 31 December 2009

	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with central banks.....	1,302,954	—	—	—	2,926,381	4,229,335
Loans and advances to banks	3,212,700	95,689	146,168	13,899	327,628	3,796,084
Financial assets held for trading						
Trading securities.....	143,878	50,069	63,024	17,097	91,855	365,923
Derivative financial instruments.....	477,729	33,246	105,412	1,317	—	617,704
Loans and advances to customers	13,143,049	10,450,643	11,378,469	6,618,735	546,701	42,137,597
Hedging derivatives	128,519	28	84	—	—	128,631
Investment securities						
Available for sale	657,076	267,807	187,114	886,971	30,605	2,029,573
Held to maturity	4,690,434	1,449,880	2,733,148	4,445,257	—	13,318,719
Investment in associates and joint ventures	—	—	—	—	83,622	83,622
Goodwill	—	—	—	—	1,023,528	1,023,528
Other intangible assets.....	—	—	—	—	216,441	216,441
Property and equipment	—	—	—	—	1,156,183	1,156,183
Deferred income tax assets.....	—	—	—	—	482,803	482,803
Other assets.....	278,063	7,572	—	—	864,252	1,149,887
Total assets	24,034,402	12,354,934	14,613,419	11,983,276	7,749,999	70,736,030
Liabilities						
Deposits from banks.....	1,673,841	481,449	—	—	276,889	2,432,179
Customer deposits	32,119,692	1,619,626	556,231	134,036	7,751,801	42,181,386
Funds borrowed	5,239,191	3,263,947	127,998	—	—	8,631,136
Debt securities in issue	1,743,760	—	—	—	718	1,744,478
Derivative financial instruments .	122,982	47,014	74,773	23,746	—	268,515
Financial liabilities designated at fair value	—	—	—	—	—	—
Current income taxes payable	—	—	—	—	69,036	69,036
Deferred income tax liabilities....	—	—	—	—	13	13
Hedging derivatives	73,077	40	259,616	24,880	—	357,613
Other provisions	—	—	—	—	397,871	397,871
Retirement benefit obligations....	—	—	—	—	964,541	964,541
Insurance technical reserves.....	—	—	—	—	866,804	866,804
Other liabilities	2,215,932	3,570	—	—	1,896,553	4,116,055
Total liabilities	43,188,475	5,415,646	1,018,618	182,662	12,224,226	62,029,627
Net interest repricing gap	(19,154,073)	6,939,288	13,594,801	11,800,614	(4,474,227)	8,706,403

As of 31 December 2008

	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with central banks.....	1,722,570	—	—	—	2,994,446	4,717,016
Loans and advances to banks	2,071,251	247,589	167,279	252,194	572,235	3,310,548
Financial assets held for trading						
Trading securities.....	56,051	139,366	99,834	40,601	60,612	396,464
Derivative financial instruments.....	196,327	211,642	8,945	16,737	—	433,651
Loans and advances to customers	15,312,447	11,068,731	10,104,984	5,234,258	749,563	42,469,983
Hedging derivatives	—	—	—	—	—	—
Investment securities.....	—	—	—	—	—	—
Available for sale	574,391	205,178	397,623	581,104	96,441	1,854,737
Held to maturity	4,681,861	1,207,522	2,356,815	4,459,583	—	12,705,781
Investment in associates and joint ventures	—	—	—	—	86,947	86,947
Goodwill	—	—	—	—	1,023,528	1,023,528
Other intangible assets.....	—	—	—	—	179,697	179,697
Property and equipment	—	—	—	—	1,215,588	1,215,588
Deferred income tax assets.....	—	—	—	—	308,958	308,958
Other assets.....	132,030	7,394	—	—	850,080	989,504
Total assets	24,746,928	13,087,422	13,135,480	10,584,477	8,138,095	69,692,402
Liabilities						
Deposits from banks.....	737,269	112,933	—	—	232,639	1,082,841
Customer deposits	35,843,769	1,271,331	453,577	98,601	6,058,569	43,725,847
Funds borrowed	6,399,189	2,097,537	959,797	195,915	—	9,652,438
Debt securities in issue	1,966,298	—	—	—	—	1,966,298
Derivative financial instruments .	174,035	28,469	1,603	16,675	—	220,782
Financial liabilities designated at fair value	66,434	—	—	—	—	66,434
Current income taxes payable	—	—	—	—	8,339	8,339
Deferred income tax liabilities....	—	—	—	—	1,030	1,030
Hedging derivatives	—	—	—	—	—	—
Other provisions	—	—	—	—	377,235	377,235
Retirement benefit obligations....	—	—	—	—	869,255	869,255
Insurance technical reserves.....	—	—	—	—	835,200	835,200
Other liabilities	1,914,008	11,463	55,723	—	1,866,494	3,847,688
Total liabilities	47,101,002	3,521,733	1,470,700	311,191	10,248,761	62,653,387
Net interest pricing gap	(22,354,074)	9,565,689	11,664,780	10,273,286	(2,110,666)	7,039,015

The below table sets out weighted average interest rates for financial instruments categorised by currency outstanding as of 31 December 2010, 2009 and 2008, based on yearly contractual rates:

	As of 31 December								
	2010			2009			2008		
	U.S.	EUR	TL	U.S.	EUR	TL	U.S.	EUR	TL
	(%)								
Assets									
Cash and balances with central banks	—	—	—	—	—	3.78	0.63	1.12	8.64
Loans and advances to banks	2.09	0.36	8.05	1.80	1.06	7.33	1.60	2.71	17.67
Financial assets held for trading	2.86	7.05	8.11	5.81	7.34	8.59	8.15	6.81	19.21
Investment securities									
Available for sale	6.98	5.94	7.85	7.43	7.18	11.73	6.43	7.76	19.63
Held to maturity	6.76	5.69	10.05	6.80	5.54	11.49	7.36	5.99	20.08
Loans and advances to customers	4.63	5.13	12.78	5.29	6.14	17.81	6.04	7.37	24.06
Liabilities									
Deposits from banks	1.36	1.14	7.29	1.68	1.16	2.98	5.39	5.54	16.07
Customer deposits	2.80	2.57	8.70	1.94	1.90	7.87	4.50	3.60	20.28
Debt securities in issue	1.33	1.77	—	1.29	1.76	—	3.82	5.99	—
Financial liabilities designated at fair value ...	—	—	—	—	—	—	6.16	—	—
Funds borrowed	2.50	2.48	9.15	2.30	2.77	13.29	3.44	5.66	15.67

Liquidity Risk

Liquidity risk arises from mismatches between maturities of assets and liabilities, which may result in the Bank being unable to meet its obligations in a timely manner. The Bank's liquidity risk is managed as part of the asset and liability management strategy in accordance with the Bank's market risk policies. In order to manage this risk, the Bank's funding sources are diversified and the Bank believes that it holds sufficient cash and cash equivalents to fund its liabilities in the event such mismatches occur. During monthly meetings of Asset and Liability Management function within the Executive Committee, the liquidity position of the Group is evaluated and it is ensured that the required actions as necessary.

The Bank uses the following definitions with respect to the components of liquidity risk:

1. Liquidity mismatch risk refers to the risk of non-conformity between the amounts and/or the maturities of cash inflows and cash outflows;
2. Liquidity contingency risk refers to the risk that future unexpected events could require a greater amount of liquidity than the amount estimated necessary for the bank. This risk could arise as a result of events such as the failure by clients to reimburse loans, the need to finance new assets, difficulties in selling liquid assets or obtaining new financings in the event of a liquidity crisis; and
3. Market liquidity risk refers to the risk that the bank may incur losses as a result of the sale of assets deemed to be liquid, or in extreme conditions is not able to liquidate such positions due to insufficient liquidity offered by the market or keeps the position that is too large when compared to market turnover.

Reports on short-term liquidity positions and structural liquidity positions are prepared by the Bank's Risk Management department. Short-term liquidity risk management focuses on events that can impact upon the Bank's liquidity position from one day and up to three months. Structural liquidity positions focus on events effecting the Group's long-term liquidity position. The primary objective is to maintain an adequate ratio between total liabilities and medium or long-term assets, with a view of avoiding pressures on short-term sources (both current and future), while optimising the cost of funding.

According to the BRSA communiqué on liquidity, banks have to meet 80% liquidity ratio of foreign currency assets/liabilities and 100% liquidity ratio of total assets/liabilities for weekly and monthly time brackets. The Risk Management department performs the calculation of the mentioned ratios on a daily basis and shares the results with the Treasury department and the Bank's senior management. Further description of the applicable regulatory requirements is set out in "*Turkish Regulatory Environment – Liquidity Reserve Requirements*".

A significant portion of the Group's funding base consists of short-term debt and customer deposits. As of 30 June 2011, customer deposits comprised 61.3% of the Bank's total liabilities and, of all customer deposits, 92.8% had maturities of three months or less. As of 30 June 2011, loans and advances to customers comprised 63.6% of the Bank's total assets and, of all loans and advances to customers, 15.2% had maturities of three months or less. The Bank's liquidity position currently has a duration gap (representing the average duration of assets less the average duration of liabilities) of 106 days for Turkish Lira and 250 days for foreign currency denominated assets and liabilities. Approximately 69% of the Bank's total assets have a maturity of three months and over.

The following tables present the cash flows payable by the Group under non-derivative financial liabilities remaining contractual maturities as of 31 December 2010, 2009 and 2008 in TL thousands. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages its inherent liquidity risk based on expected undiscounted cash inflows.

As of 31 December 2010

	Demand and up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Liabilities					
Deposits from banks	3,889,354	608,791	474,358	119,850	5,092,353
Customer deposits	52,317,260	965,050	407,558	51,541	53,741,409
Funds borrowed	3,038,526	5,064,290	3,079,078	2,661,837	13,843,731
Debt securities in issue	92,176	290,088	1,076,346	29,829	1,488,439
Financial liabilities designated at fair value	—	—	—	—	—
Total liabilities	59,337,316	6,928,219	5,037,340	2,863,057	74,165,932
Assets held for managing liquidity risk (contractual maturity dates)..	29,969,222	21,274,279	29,213,815	20,480,550	100,937,866

As of 31 December 2009

	Demand and up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Liabilities					
Deposits from banks	1,952,974	487,196	—	—	2,440,170
Customer deposits	39,969,003	1,668,914	614,776	164,736	42,417,429
Funds borrowed	1,507,069	3,872,085	1,970,505	2,122,797	9,472,456
Debt securities in issue	94,950	279,884	1,322,552	618,381	2,315,767
Financial liabilities designated at fair value	—	—	—	—	—
Total liabilities	43,523,996	6,308,079	3,907,833	2,905,914	56,645,822
Assets held for managing liquidity risk (contractual maturity dates)..	21,852,211	16,345,096	21,757,207	14,514,462	74,468,976

As of 31 December 2008

	Demand and up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Liabilities					
Deposits from banks	973,054	115,688	—	—	1,088,742
Customer deposits	42,138,195	1,315,708	526,844	140,178	44,120,925
Funds borrowed	2,134,802	4,046,580	2,469,799	2,728,494	11,379,675
Debt securities in issue	—	70,460	1,359,451	978,386	2,408,297
Financial liabilities designated at fair value	—	67,032	—	—	67,032
Total liabilities	45,246,051	5,615,468	4,356,094	3,847,058	59,064,671
Assets held for managing liquidity risk (contractual maturity dates) ..	21,072,193	17,050,785	21,463,511	14,999,615	74,586,104

The following tables represent the outstanding derivative cash flows of the Group on undiscounted basis by contractual maturity as of 31 December 2010, 2009 and 2008 in TL thousands:

As of 31 December 2010

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivatives held for trading:						
Foreign exchange derivatives:						
Outflow	7,128,131	8,190,025	4,775,010	3,292,216	598,845	23,984,227
Inflow	7,327,810	8,587,374	4,731,083	2,758,746	376,825	23,781,838
Interest rate derivatives:						
Outflow	64,912	88,440	732,505	3,515,151	396,531	4,797,539
Inflow	65,372	8,536	613,117	3,246,597	353,200	4,286,822
Derivatives held for hedging:						
Interest rate derivatives:						
Outflow	22,374	135,129	783,959	6,453,882	33,189	7,428,533
Inflow	1,828	109,620	559,671	5,830,245	30,256	6,531,620
Total outflow	7,215,417	8,413,594	6,291,474	13,261,249	1,028,565	36,210,299
Total inflow	7,395,010	8,705,530	5,903,871	11,835,588	760,281	34,600,280

As of 31 December 2009

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivatives held for trading:						
Foreign exchange derivatives:						
Outflow	7,542,363	2,350,088	715,018	267,544	262,528	11,137,541
Inflow	7,578,917	2,720,600	725,628	353,728	262,528	11,641,401
Interest rate derivatives:						
Outflow	98,888	897,543	468,219	3,827,142	1,022,597	6,314,389
Inflow	94,622	893,260	358,828	3,558,805	987,070	5,892,585
Derivatives held for hedging:						
Interest rate derivatives:						
Outflow	9,847	13,769	139,278	2,066,193	235,690	2,464,777
Inflow	452	865	8,057	1,806,284	213,395	2,029,053
Total outflow	7,651,098	3,261,400	1,322,515	6,160,879	1,520,815	19,916,707
Total inflow	7,673,991	3,614,725	1,092,513	5,718,817	1,462,993	19,563,039

As of 31 December 2008

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivatives held for trading:						
Foreign exchange derivatives:						
Outflow	3,301,229	543,819	2,339,573	41,903	—	6,226,524
Inflow	3,313,034	544,424	2,613,667	41,498	—	6,512,623
Interest rate derivatives:						
Outflow	216,750	7,144	308,537	1,980,982	328,646	2,842,059
Inflow	499,929	1,871,994	163,571	17,636	328,646	2,881,776
Derivatives held for hedging:						
Interest rate derivatives:						
Outflow	—	—	—	—	—	—
Inflow	—	—	—	—	—	—
Total outflow	3,517,979	550,963	2,648,110	2,022,885	328,646	9,068,583
Total inflow	3,812,963	2,416,418	2,777,238	59,134	328,646	9,394,399

Operational Risk Management

Operational risk is related to losses which arise as a result of inadequate or ineffective internal processes, personnel or systems or due to external events. The operational risk management team monitors the Bank's operational risk exposure in accordance with the Bank's standards and policies, collects operational risk data in a web based database, identifies risk indicators, conducts scenario analysis assessment, plans for business continuity management and assures the quality of data gathered in accordance with Basel II standards, proposes insurance hedging on operational risks, prepares risk mitigation plans and coordinates IT risk management activities. The operational risk management department performs second level controls, manages and measures the Bank's operational risks.

The Bank's objective is to implement the advanced measurement approaches of Basel II and related measurement systems in operational risk management. As part of the Basel II operational risk project, the Bank has been collecting data on internal operational risk since 2004. Data on internal losses are being collected from various departments and branches using web-based systems. Scenario

analysis studies for measuring and managing the impacts of unrealised potential operational risk have been preformed since 2008. Key risk indicator analyses have been performed to monitor current and potential operational risk exposure of the Bank since 2007. A dedicated database was established for monitoring the trends of more than 500 key risk indicators. Moreover, a risk based insurance management approach was used to seek to minimise main operational risk that the Bank is exposed to. These actions have resulted in minimising internet fraud, enhancing the effectiveness of the risk transfer mechanism and helped senior management to better understand and monitor the main risk factors associated with banking activities. Additionally, potential risk evaluations were made before launching new products and services and the findings were shared with related departments so that necessary measures could be taken. A Loss Prevention Programme, aimed at decreasing Internet frauds, was finalised in 2009. Besides, both for IT and logistics purposes, the business continuity management activities and investments were accomplished and necessary tests were performed.

For regulatory and statutory capital adequacy ratio purposes, the Group calculated the amount subject to operational risk on a consolidated basis with the basic indicator method in accordance with Section 4 of “Regulation Regarding Measurement and Evaluation of Banks’ Capital Adequacy Ratio” published by the Official Gazette No. 26333 dated 1 November 2006, namely “The Calculation of the Amount Subject to Operational Risk”, based on the gross income of the Group for the years ended 2010, 2009 and 2008. As of 31 December 2010, the total amount subject to operational risk was calculated as TL8,999,965 thousand, compared to TL7,695,259 thousand as of 31 December 2009 and TL6,418,028 thousand as of 31 December 2008. As of 31 December 2010, the amount of the related capital requirement was TL719,998 thousand, compared to TL615,621 thousand as of 31 December 2009 and TL513,442 thousand as of 31 December 2008.

Capital Management

Banks in Turkey are required to comply with capital adequacy guidelines published by the BRSA. These capital adequacy guidelines are based on standards established by BIS. The guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-balance sheet exposures.

A bank’s capital adequacy ratio is calculated based on the aggregate of its Tier I capital (which includes paid in capital, reserves, retained earnings and profit for the current periods minus period loss (if any)), its Tier II capital (which includes general loan and free reserves, revaluation funds and subordinated loans obtained) and its Tier III capital (which includes certain qualified subordinated loans in accordance with BIS guidelines) minus deductions (which include participations to financials institutions, negative differences between fair and book values of subsidiaries, subordinated loans extended, goodwill and capitalised costs), and dividing this aggregate by risk weighted assets, which reflect both credit risk and market risk. In accordance with the guidelines, banks must maintain a total capital adequacy ratio of a minimum of 8%. By taking into account banks’ internal systems, assets and financial structure, the BRSA is authorised to (i) increase the minimum capital adequacy ratio, (ii) set different ratios for each bank, and (iii) revise the risk weighting of assets that are based upon participation accounts. If a bank’s capital adequacy ratio is below the ratio set by the BRSA, certain restrictions are imposed.

The Bank and its individually regulated operations were in compliance with all the above indicated capital adequacy requirements throughout 2010.

The table below shows the Bank's and its affiliates' regulatory capital position on a consolidated BRSA basis as of 31 December 2010, 2009 and 2008:

	As of 31 December		
	2010	2009	2008
	<i>(TL, thousands)</i>		
Tier I capital			
Share capital	4,347,051	4,347,051	4,347,051
Share premium	543,881	543,881	543,881
Legal reserves	163,959	96,220	44,089
Retained earnings	2,399,148	1,505,894	1,005,547
Extraordinary reserves	3,038,543	1,769,658	822,644
Non-controlling interests	63,095	57,261	47,980
Provisions for possible risks up to 25% of core capital	124,712	96,616	63,775
Profit on disposal of associates, subsidiaries and immovables to be transferred to share capital	80,731	61,969	18,513
Less: intangible assets	(1,243,080)	(1,194,649)	(1,157,825)
Less: Special costs	(102,899)	(97,938)	—
Less: Prepaid expenses	(138,650)	(109,837)	(167,762)
Total qualifying Tier I capital	9,276,491	7,076,126	5,567,893
Tier II capital			
Collective impairment allowance	826,853	755,571	659,018
Secondary subordinated loan	2,097,218	2,208,374	2,172,900
Revaluation reserve available for sale investments	113,759	46,893	15,289
Total qualifying Tier II capital	3,037,830	3,010,838	2,847,207
Deductions			
Investments in unconsolidated financial institutions and banks	(3,940)	(28,530)	(32,083)
Investments in financial institutions (domestic, foreign) and banks, in which less than 10% equity interest is exercised and that exceeds 10% and more of the total core and supplementary capital of the Bank	(71,906)	(58,939)	(55,593)
The net book value of Bank's immovables that are over 50% of shareholders' equity and immovables or commodities that are received on behalf of the receivables from customers and are to be disposed according to Banking Law article 57 as they have been held for more than five years from the acquisition date	(10,705)	(16,145)	—
Total deductions	(86,551)	(103,614)	(87,676)
Total regulatory capital	12,227,770	9,983,350	8,327,424
Amount subject to credit risk	68,300,334	50,885,068	51,093,393
Amount subject to market risk	1,949,350	1,865,338	972,600
Amount subject to operational risk	8,999,966	7,695,259	6,418,028
Total risk weighted assets	79,249,650	60,445,665	58,484,021
Capital adequacy ratio (%)	15.43	16.52	14.24

Fair Value of Financial Instruments

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

The estimated fair value of financial instruments has been determined by the Group with the use available market information and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data in order to develop the estimated fair value. Accordingly, the estimated fair value presented in the Offering Memorandum is not necessarily indicative of the amount the Group could realise in a current market exchange transaction.

The table below indicates the carrying and estimated fair value of the financial assets and liabilities, which are not presented on the Group's balance sheet at their estimated fair value.

As of 31 December						
	2010		2009		2008	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
<i>(TL, thousands)</i>						
Financial assets:						
Loans and advances to banks	3,372,107	3,391,936	3,796,084	3,799,876	3,310,548	3,340,164
Investment securities (held to maturity).....	12,974,944	13,741,481	13,318,719	13,982,200	12,705,781	12,482,450
Loans and advances to customers.....	57,804,154	59,254,992	42,137,597	42,225,440	42,469,983	42,653,501
Financial liabilities:						
Deposits from banks	4,935,470	4,714,321	2,432,179	2,434,939	1,082,841	1,082,849
Customer deposits	53,490,950	53,490,950	42,181,386	42,181,386	43,725,847	43,725,847
Funds borrowed	12,614,942	12,643,111	8,631,136	8,702,533	9,652,438	9,694,556
Debt securities in issue	1,394,904	1,394,904	1,744,478	1,744,478	1,966,298	1,966,298

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

Loans and Advances to Banks

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

Loans and Advances to Customers

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

Investment Securities

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

Due to Customers, Deposits from Banks, Other Borrowed Funds and Debt Securities in Issue

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

The estimated fair value of other borrowings without quoted market price is based on discounted cash flows using money market interest rates prevailing at the balance sheet date with similar credit risk, currency and remaining maturity. The fair value of the debt securities in issues is considered to approximate its carrying amounts.

The estimated fair value of interest bearing liabilities due to customers is considered to approximate its carrying amounts.

Assets and liabilities measured at fair value

The following table presents assets and liabilities at fair value as of 31 December 2010 in TL thousands.

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss				
Financial assets held for trading				
Debt securities.....	370,143	—	—	370,143
Equity securities.....	6,448	—	—	6,448
Derivatives.....	—	693,524	—	693,524
Financial assets designated at fair value				
Debt securities.....	—	—	—	—
Equity securities.....	—	—	—	—
Loans and advances to banks.....	—	—	—	—
Loans and advances to customers	—	—	—	—
Hedging derivatives	—	38,201	—	38,201
Available for sale financial assets				
Investments securities debt	4,551,215	1,308,165	—	5,859,380
Investments securities equity.....	240	—	22,136	22,376
Total assets	4,928,046	2,039,890	22,136	6,990,072
Financial liabilities at fair value through profit and loss				
Derivatives	—	359,168	—	359,168
Financial liabilities designated at fair value	—	—	—	—
Hedging derivatives	—	453,663	—	453,663
Total liabilities	—	812,831	—	812,831

Fiduciary Activities

The Group provides custody services to third parties. The assets that are held in a fiduciary capacity are not included into the consolidated financial statements of the Group. The below table indicates assets held by the Group in fiduciary capacity in 2010, 2009 and 2008:

	As of 31 December		
	2010	2009	2008
	(TL, thousands)		
Investment securities held in custody	18,069,560	19,229,647	15,497,795
Cheques received for collection	6,677,547	5,033,055	5,350,632
Commercial notes received for collection.....	2,089,277	1,693,290	1,599,651
	26,836,384	25,955,992	22,448,078

Risk Committees

In the Bank, risk management is performed by the Asset and Liability Management function within the Executive Committee and the Credit Committee.

The Credit Committee is responsible for: (i) determining lending guidelines in line with the credit policy, economic objectives and the overall risk profile of the credit portfolio of the Bank, (ii) granting loans within certain set limits or advising the Board of Directors with respect to granting of loans exceeding such limits, (iii) defining restructuring terms for overdue loans within certain set limits or advising the Board of Directors on the same with respect to loans exceeding such limits, and (iv) performing other functions assigned to it by the Board of Directors. The Credit Committee consists of five principal members, which include the CEO, the Deputy CEO and three members of Board of Directors, and two alternate members from the Board of Directors. The Risk Management Assistant General Manager attends the meetings by invitation. The Credit Committee meets on a weekly basis.

The decisions of the Credit Committee become immediately effective in case of unanimous vote. Otherwise, decisions of the Credit Committee require a majority approval from the Board of Directors.

The Asset and Liability Management function within the Executive Committee is responsible for: (a) determining the Bank's structural risk management guidelines and policies, (b) defining risk profile management strategies, and ensuring their compliance with the Board of Directors' guidelines in terms of risk appetite, (c) optimising the level of risk that the Bank is exposed to within the guidelines set by the Board of Directors, (d) defining risk limits, (e) defining operational principles of risk management and approval of risk measurement and control models, and (f) maintaining an overview of credit, market and operational risks. The decisions of the Asset and Liability Management function within the Executive Committee are taken by unanimous vote of its permanent members. Such permanent members include the CEO, the Deputy CEO, the CFO, the Treasury Department Assistant General Manager and the Risk Management Assistant General Manager. In addition, heads of other business units as members of the Executing Committee also regularly attend meetings of the Asset and Liability Management function within the Executive Committee, including the Corporate and Commercial Banking Assistant General Manager, the Retail Banking Assistant General Manager, the Private Banking and Wealth Management Assistant General Manager. The Asset and Liability Management function within the Executive Committee usually meets on a weekly basis but in any case not less frequently than once a month.

MANAGEMENT

The Bank is managed by its Board of Directors, its General Manager and its senior management.

Board of Directors

Pursuant to the Bank's articles of association and the board of directors is responsible for the Bank's management. The Bank's articles of association stipulate that the Board of Directors (the "**Board**") should consist of a minimum of 7 and a maximum of 10 members elected by the General Assembly, with the General Manager holding a board seat, as required by the Banking Law. The Board is currently composed of 10 directors. Each director is appointed for a maximum term of three years. The business address of each of the directors is Yapı Kredi Plaza D Blok, Levent 34330, Istanbul, Turkey.

Under Turkish law, directors are required to own at least one share in order to serve on the board of directors.

The following table sets forth certain information regarding each member of the Board of Directors as of the date of this Offering Memorandum.

Name	Position
Mustafa V Koç	Chairman
Gianni F G Papa	Vice Chairman
Faik Açıkalın	Chief Executive Officer
Carlo Vivaldi.....	Executive Director and Deputy CEO
Fatma Füsün Akkal Bozok	Director
Ahmet Fadıl Ashaboğlu	Director
Osman Turgay Durak.....	Director
Massimiliano Fossati	Director
Vittorio G M Ogliengo	Director
Francesco Giordano	Director

Mr. Mustafa V Koç, Chairman of the Board of Directors. Mr. Koç, 53, having received a degree in Business Administration from George Washington University, Washington DC in 1984, became Sales Manager at Tofaş Oto A.Ş. in 1984. Having served as an Assistant General Manager of Kofisa Trading Co., Geneva from 1986 to 1989, Mr. Koç then became Assistant to the President of the Industry, Commerce and Energy Group of Ram Dış Ticaret A.Ş. in 1989. In 1992, he became an Executive Vice President of the Construction Group of Koç Holding A.Ş. and served as the President of the Construction and Mining Group of Koç Holding A.Ş. from 1994 to 1996. Mr. Koç has been Chairman of Koç Holding A.Ş. since 4 April 2008. Having also held various positions at non-governmental organisations, Mr. Koç was appointed as Chairman of the Bank, effective 1 August 2011.

Mr. Gianni F G Papa, Vice-Chairman of the Board of Directors. Mr. Papa, 55, holds of a Bachelor Degree in Law from the Catholic University of Milan. He has been Deputy Chief Executive Officer and Deputy Chairman of Management Board at UniCredit Bank Austria AG since January 2011 and its Interim Head of CEE Banking since April 2011. Mr. Papa has also been Head of the Central and Eastern Europe division and a Member of the Supervisory Board at CJSC UniCredit Bank since 24 January 2011. Mr. Papa has held the position of Head of Central and Eastern Europe division at UniCredit Bulbank AD since 15 December 2010. He serves as an Executive Vice President of Central Eastern Europe and General Manager of Ukraine at UniCredit S.p.A. Previously, Mr. Papa served as the Head of CEE Banking at UniCredit Bank Austria AG until April 2011. Between 1986 and 2008 he held various positions in the Group. He served as General Manager and Member of the Management Board of Public Joint Stock Company Ukrspotsbank from February 2008 to November 2010 and was responsible for Business Areas, Risk Management, Planning & Control, Treasury, Logistic, Back Office, IT & Orga. He has been Chairman of the Supervisory Board of UniCredit Leasing Ukraine since January 2009; and Ferrotrade ASCJ since April 2008. He serves as Head of the Supervisory Board at Unicredit Bank Slovakia and as a Member of the Supervisory Board of Public Joint Stock Company Ukrspotsbank. He has been a Member of the Supervisory Board at JSC ATF Bank since 25 April 2011 and Vice Chairman of the Bank's Board since 1 April 2011.

Mr. Carlo Vivaldi, Executive Director and Deputy CEO. Mr. Vivaldi, 46, graduated from the University of Ca' Foscari, Venice (Business Administration). He has held various positions at Cassamarca, which merged with UniCredit in 1998. He became the CFO of Koç Financial Services and subsequently at Yapı Kredi. Since October 2007, he has served as Chief Financial Officer and member of the Management Board at UniCredit Bank Austria AG. Since May 2009, Carlo Vivaldi has also been a member of the Board of the Bank and in January 2011 he was appointed as an Executive Director and Deputy CEO of the Bank.

Mr. Faik Açıklın, Chief Executive Officer. Mr. Açıklın, 49, graduated from Middle East Technical University. He has worked in various positions at Interbank, Marmarabank, Kentbank, Finansbank and Demirbank, as Deputy CEO and President of Dışbank and Fortis and as CEO at Doğan Gazetecilik. In April 2009, Mr. Açıklın was appointed as Executive Director and Chairman of the Executive Committee of the Bank. Since May 2009, he has been serving as CEO of the Bank and Mr. Açıklın is also currently the President of Banking and Insurance Group at Koç Holding.

Ms. Fatma Füsün Akkal Bozok, Member of the Board of Directors. Ms. Akkal Bozok, 54, graduated with an MBA from Boğazici University and with a PhD from Istanbul University. She has worked at Koç Group in various positions including Audit Specialist, Financial Group Coordinator and the Finance Group Director. Currently, Ms. Akkal Bozok works as an assistant professor at Koç and Sabancı Universities and has been a member of the Board of the Bank since 28 September 2005.

Mr. Ahmet Fadıl Ashaboğlu, Member of the Board of Directors. Mr. Ashaboğlu, 40, graduated from Tufts University (Department of Mechanical Engineering) and received an MS degree from Massachusetts Institute of Technology. He has held various positions at UBS Warburg, McKinsey & Company and Koç Holding and has been a member of the Board of the Bank since September 2005 and the Chief Financial Officer of Koç Holding since January 2006.

Mr. Osman Turgay Durak, Member of the Board of Directors. Mr. Durak, 59, graduated from the Northwestern University (Department of Mechanical Engineering) followed by a Master of Science from the same university. He has held various positions at Ford Otomotiv, a company within Koç Holding, including CEO and became the President of Automotive Group at Koç Holding. In 2010, he was appointed as CEO at Koç Holding and since 2009 he is a member of the Board of the Bank.

Mr. Massimiliano Fossati, Member of the Board of Directors. Mr. Fossati, 43, graduated from the Department of Economics of the Commerciale L. Bocconi University, and received a postgraduate degree in Bank Management. He began his career as a Financial Analyst at the Credits Department of Centrobanca S.p.A. in 1995 and became a Relationship Manager before serving as a Senior Analyst at the same bank until 2000. Mr. Fossati worked as Senior Analyst at Credit Division of Locat S.p.A (a leasing company within the UCI Group) in 2001 and then he joined UniCredito Italiano S.p.A. in 2002 where he held various positions within the Group. In October 2008 he started working for Yapı Kredi as Executive Vice President responsible for Corporate and Commercial Credits, and later he was appointed Executive Vice President responsible for Risk Management on 30 January 2009. Since 27 July 2010, Mr. Fossati has been a member of the Board of the Bank.

Mr. Vittorio G. M. Ogliengo, Member of the Board of Directors. Mr. Ogliengo, 53, graduated from the University of Turin (Business Administration). He has worked at Price Waterhouse, Citibank N.A., Fiat SpA becoming Head of the Finance Department and then General Manager of Fiat Deutschland and has held senior managerial positions at the Barilla Group. He joined UniCredit in 2005 as the Head of Financing & Advisory. In addition to his position in UniCredit, since May 2009 he has served as a member of the Board of the Bank.

Mr. Francesco Giordano, Member of the Board of Directors. Mr. Giordano, 45, graduated from Genoa University (Italy), Department of Economics, with a Masters of Science. Giordano began his career as a European Economist at MMS/Standard & Poor's (London) in 1992. From 1994 to 2000, he worked at San Paolo Bank, and then Credit Suisse First Boston in London. In 2000, he joined the Unicredit Group and has worked in various posts within that group, most recently he was appointed as Chief Financial Officer and Member of the Management Board of UniCredit Bank Austria AG in February 2011. Giordano has been a Director of the Bank since 1 April 2011.

Senior Management

The current members of the Bank's senior management and their areas of responsibility are as follows:

Name	Position	Responsibility
Faik Açıkalin.....	BOD Member/CEO	General Manager
Carlo Vivaldi.....	BOD Member/Deputy CEO	Deputy General Manager
Mehmet Güray Alpkaya	Executive Vice President	Corporate Sales Management
Marco Cravario.....	Executive Vice President	Financial Planning and Administration Management (Chief Financial Officer)
Wolfgang Schilk	Executive Vice President	Risk Management Chief Risk Officer
Cahit Erdoğan.....	Chief Information Officer	Information Technologies
Yakup Doğan.....	Executive Vice President	Alternative Distribution Channels
Mehmet Murat Ermert.....	Executive Vice President	Corporate Communication Management
Mert Güvenen	Executive Vice President	Corporate and Commercial Banking Management
Süleyman Cihangir Kavuncu	Executive Vice President	Human Resources and Organization Management
Mert Yazıcıoğlu.....	Executive Vice President	Private Banking and Asset Management
Mehmet Erkan Özdemir.....	Executive Vice President	Compliance Officer
Stefano Perazzini.....	Executive Vice President	Internal Audit
Yüksel Rizeli	Executive Vice President	Information Systems and Operation Management
Cemal Aybars Sanal.....	Executive Vice President	Legal Activities Management
Zeynep Nazan Somer	Executive Vice President	Retail Banking Management
Feza Tan.....	Executive Vice President	Corporate and Commercial Credit Management
Selim Hakkı Tezel	Executive Vice President	Retail Credits Management
Mert Öncü.....	Executive Vice President	Treasury Management

Set forth below is brief biographical information regarding Yapı Kredi's current senior management (other than those who are members of the Board, whose biographical information is set out above):

Mehmet Güray Alpkaya. Mr. Alpkaya, 43, graduated from Koç University (MBA) and Istanbul University (Economics Department). He has worked at the Import and Export Bank of Turkey, Chase Manhattan Bank N.A. and Koçbank. He was appointed Executive Vice President responsible for Credit Management at the Bank in 2006. In 2008 Mr. Alpkaya was appointed Chief Risk Officer and in 2009 he assumed the position of Executive Vice President in charge of Corporate and Commercial Sales Management. He has been in charge of Corporate Sales since January 2011.

Marco Cravario. Mr. Cravario, 44, received a degree in Economics from the University of Turin and attended top level financial education programmes at the London School of Economics and INSEAD. He has held various positions at Ernst & Young and UniCredit Group and has been an Executive Vice President and CFO at the Bank since January 2008. Marco Cravario was also appointed as member of the Executive Committee in February 2009.

Wolfgang Schilk, 44, graduated from University of Wien, Faculty of Law. He began his career in 1992 by joining the postgraduate trainee programme at Creditanstalt-Bankverein. Between 1994 and 1996, he served there as Restructuring Manager. From 1996 until 2004, he was Head of the Credit Unit at Bank Austria Creditanstalt, subsequent to which he was promoted to Head of the Regional Office. From 2007 until 2010, Mr. Schilk served as Head of Risk Management responsible for private, SME clients and private banking. During his career to date, he has served as a member of the supervisory board of Leasfinanz Bank, BAF, as well as member of the advisory council of IRG Immobilien Rating GMBH. Mr. Schilk was appointed Executive Vice President responsible for Risk Management at the Bank as of September 2010.

Cahit Erdoğan. Mr. Erdoğan, 37, graduated from the Faculty of Mechanical Engineering at İstanbul Technical University. Mr. Erdoğan earned his MBA degree from Rochester Institute of Technology. Starting his professional career at Xerox Corporation (Rochester, NY) as a Business Analyst, Mr. Erdoğan moved to Accenture Istanbul Office in 2000 as a Management Consultant, where he

held various positions. Mr. Erdoğan joined the Bank on 1 December 2009 as Chief Information Officer.

Yakup Doğan. Mr. Doğan, 43, received a degree in Business Administration from the Cukurova University. He has worked at İş Bankası and Ottoman Bank before joining Koçbank as Section Head in the Alternative Delivery Channels Department and being later appointed Head of the Alternative Delivery Channels Department. As of 30 January 2009, he has assumed the position of Executive Vice President in charge of Alternative Delivery Channels at the Bank.

Mehmet Murat Ermet. Mr. Ermet, 45, received a degree in Business Administration from Marmara University. He has worked in advertising at Leo Burnett Advertising Agency, Yapı Kredi, Doğan Media Group and later joined Demirbank. Mr. Ermet has served as Executive Vice President responsible for Corporate Communications at Dışbank (later Fortis) and also worked at the Global Marketing and Communications Management (Brussels) of Fortis. As of June 2008, he has assumed the position of Executive Vice President in charge of Corporate Communications at the Bank.

Mert Güvenen. Mr. Güvenen, 43, received an MBA degree from the University of West Georgia. He began his career at the Bank and was appointed as Branch Manager of the Bank's Esentepe Corporate Branch in 1999, he went on to serve as Korfezbank's Central Branch Manager. He then worked as Corporate Marketing Director at Koçbank and General Manager at Koç Factoring. Since May 2006, he served as the Executive Vice President responsible for Commercial Banking Management at Yapı Kredi. Mr. Guvenen was then appointed Executive Vice President responsible for Corporate and Commercial Banking as well as commercial coordination of the Bank's international subsidiaries on 30 January, 2009. In February 2009, Mr. Guvenen also became a member of the Executive Committee.

Süleyman Cihangir Kavuncu. Mr. Kavuncu, 52, received an MBA degree from the University of Bridgeport. He began his career at Arthur Andersen in 1983 as an Auditor. He worked then as the Foreign Funds Manager at the Treasury Division of Interbank, the Financing Director and Human Resources Director at Coca-Cola, Administrative Affairs Coordinator at Cukurova Holding and Human Resources Director at Colgate Palmolive. Following his appointment in August 2004 as Executive Vice President at Koçbank, he has been serving as Executive Vice President responsible for Human Resources at the Bank since 28 February 2006. Mr. Kavuncu also became a member of the Executive Committee in February 2009. He has been in charge of both Human Resources and Organisation Management since May 2011.

Mert Yazıcıoğlu. Mr. Yazıcıoğlu, 44, graduated from Istanbul Technical University, Department of Business Administration. He began his career at S. Bolton and Sons in 1987, serving as International Relations Officer. He joined Koçbank in 1989 where he served as Customer Relations Officer, Dealer, Senior Dealer and Assistant Manager. Mr. Yazıcıoğlu was promoted to Group Manager of the TL – FX Group under the Treasury Department in 1996 and then to Executive Vice President in 1999. He has served as Executive Vice President responsible for Treasury Management at the Bank since 28 February 2006. He was appointed as Executive Vice President of Private Banking and Wealth Management in May 2011.

Mehmet Erkan Özdemir. Mr. Özdemir, 43, received a degree in Economics from Middle East Technical University. He worked as a Sworn-in Bank Auditor on the Sworn-in Bank Auditor Board of the Banking Regulation and Supervision Agency between April 1994 and August 2001. He joined Koç Group in August 2001 where he worked as Audit Coordinator in the Audit Group responsible for the financial companies of the Group. Since April 2008, Mr. Özdemir has been serving as Compliance Officer and Executive Vice President at the Bank.

Stefano Perazzini. Mr. Perazzini, 47, received a degree in Economics from the University of Turin. He began his career at San Paolo IMI Bank in 1987. Between 1989 and 1992, he joined Honeywell Bull where he was responsible for the Planning and Control Department. Mr. Perazzini then became an Information Technology Auditor at Banca CRT Head Office and later an Internal Auditor at the London and Paris branches of the Bank. Assuming the position of Internal Auditor at UniCredit Holding in September 1999, Mr. Perazzini was then appointed Deputy Manager of the Internal Audit Department at Bank Pekao, a UniCredit Group company. In March 2003, he took on the responsibilities of Executive Vice President for Internal Audit at Koç Financial Services and since 16 March 2006 he has been serving as Executive Vice President responsible for Internal Audit at the Bank.

Yüksel Rizeli. Ms. Rizeli, 58, has 35 years of experience in banking operations including 10 years in the capacity of Head of Operations at Garanti Bank. She has served as Head of Project

Implementation Management at Garanti Bank as well as part of the Business Process Reengineering (BPR) project with IBM consultancy. She has been a member of Executive Management Team and Head of Operations, BPR, System Analysis and Organisation at Ottoman Bank. She has managed the merger between Ottoman Bank and Korfezbank and the merger between Garanti Bank and Ottoman Bank. Prior to joining the Bank, she served as the Head of Operations at Koçbank responsible for system analysis, organisation, strategic planning and monitoring of operations. In February 2006, Ms. Rizeli was appointed as Head of Operations at the Bank. In January 2009, she assumed the role of Executive Vice President responsible for Information Technologies and Operations. Ms. Rizeli also became a member of the Executive Committee in November 2009.

Cemal Aybars Sanal. Mr. Sanal, 51, graduated from Istanbul University, Faculty of Law. He began his career in 1986 with the law firm of Sanal & Sanal as a partner. Subsequently, he served at the Shell Company of Turkey Limited as an attorney from 1992 to 1995, at White & Case Law Firm as an attorney from 1995 to 1998, at the Shell Company of Turkey Limited once again as Chief Legal Counsel and a member of the Board of Directors from 1998 to 1999 and at Boyner Holding A.Ş. as Chief Legal Counsel and Vice President between 1999 and 2006. After working as a freelance attorney between 2006 and 2007, Mr. Sanal worked with the ELIG Law Firm as a Consultant from 2007 to 2008. He has been working with the Bank since July 2008 as the Executive Vice President responsible for Legal Affairs Management.

Zeynep Nazan Somer. Ms. Somer, 47, graduated from Boğazici University, Faculty of Business Administration. She joined Arthur Andersen in 1988 and served as a Partner in charge of the finance sector from 1999 until 2000. Joining the Bank in September 2000 as Executive Vice President responsible for Individual Banking, Ms. Somer has served as Executive Vice President responsible for Credit Cards and Consumer Lending from February 2006 until January 2009. She then became Executive Vice President responsible for Retail Banking. Ms. Somer also became a member of the Executive Committee in February 2009.

Feza Tan. Ms. Tan, 41, earned her graduate degree from the Department of Economics, Boğazici University in 1993. She began her professional career at the Bank as a management trainee in Corporate and Commercial Credits the same year and has served in various positions in the same unit from 1993 until 2006. In 2006, she was promoted to the Head of Corporate and Commercial Credits Underwriting Unit. Since February 2009, she has been Executive Vice President responsible for Corporate and Commercial Credits.

Selim Hakkı Tezel. Mr. Tezel, 39, graduated from Boğazici University, Department of Business Administration. He began his professional career at Arthur Andersen where he served as Senior Auditor from 1995 to 1999. He worked at the Bank from 1999 to 2008 as Department Manager responsible for Credit Cards, Financial Planning and Accounting; Manager of Credit Cards, Financial Planning and Risk; and Head Of Credit Cards and Consumer Lending Risk Unit. Mr. Tezel has served as Executive Vice President responsible for Retail Credits since December 2008.

Mert Öncü. Mr. Öncü, 40, graduated from Istanbul Technical University, Electronics and Telecommunication Engineering Department in 1992 and completed his MBA degree in DePaul University in 1994 and doctoral degree in Marmara University in 2001. He started his career in DePaul University where he worked as graduate assistant and between 1993-1994. In 1994 he worked at Chicago Mercantile Exchange. He joined Koçbank in 1994 and worked at the Currency Risk and Asset Management departments respectively as Senior Dealer, Section Head, Group Manager and Asset Management TL/FX Supervisor. Between 2003 and 2006, he worked as the Head of Money and FX Markets Unit. Between 2006 and 2009, he worked as Head of Money and FX Markets Unit in Yapı Kredi. In 2010, he started to work as Money and FX Markets Executive Vice President. He has been Executive Vice President of Treasury Management since May 2011.

The business address of Mr. Yakup Doğan and Ms. Yüksel Rizeli is Yapı Kredi Bankası A.Ş., Genel Mudurluk/Bankacılık Ussu, Akse Mahallesi, Rahmi Dibeck Caddesi No:275 41435 Çayırözü, Kocaeli, Turkey which is the operation centre of the Bank. The other members of the senior management have their business address at Yapı ve Kredi Bankası A.Ş., Yapı Kredi Plaza D Blok, 34330 Istanbul, Turkey.

Board Committees

Yapı Kredi has a number of committees comprising various members of the Board. These committees consider risk and credit matters and include the Asset and Liability management function of the Executive Committee and the Credit Committee, which are described in detail in “Risk

Management”, as well as the Audit Committee, the Corporate Governance Committee and the Remuneration Committee. The Audit Committee supervises compliance by the Bank with local laws and internal regulations, monitors the performance of the Internal Audit Department, Internal Control Department and Risk Management Department, controls ethical compliance and executes other functions provided for by the Banking Legislation and CMB Legislation for Audit Committees. The Audit Department, Risk Management and Internal Control Unit report to the Audit Committee. The Compliance Officer reports directly to the Board of Directors.

Corporate Governance

Until recently, there were no mandatory corporate governance rules in Turkey. In 2003, the CMB issued a set of recommended principles for public companies, which applied to public companies on a “comply or explain” basis. In 2004, the Board decided to adopt these principles. On 30 December 2011, the Communiqué on the Determination and Implementation of Corporate Governance Principles Series: IV, No: 56 (the “**Corporate Governance Communiqué**”) was published and entered into force, providing certain compulsory and non-mandatory principles applicable to all companies incorporated in Turkey and listed on the Istanbul Stock Exchange, including the Bank. Although the Corporate Governance Communiqué is currently in force for all listed companies, its provisions will only become applicable to the Bank starting from 30 December 2012, since the regulation provides a one-year exception for banks.

The Corporate Governance Communiqué contains principles relating to: (i) the company shareholders; (ii) public disclosure and transparency; (iii) the stakeholders of the company; and (iv) the board of directors. A number of principles are compulsory while the remaining principles continue to apply on a “comply or explain” basis as before. The Corporate Governance Communiqué classifies listed companies into three categories according to their market capitalization and the market value of their free-float shares, subject to recalculation on an annual basis. The CMB has classified 23 companies for the year 2012 as “Tier 1” companies, which have maximum exposure to the mandatory principles set out in the Corporate Governance Communiqué. Some of these mandatory principles are not applicable to “Tier 2” and “Tier 3” companies. The Bank is classified as a “Tier 1” company.

The mandatory principles under the Corporate Governance Communiqué include: (i) the composition of the board of directors; (ii) appointment of independent board members; (iii) board committees; (iv) specific corporate approval requirements for related party transactions, transactions that may result in a conflict of interest and certain other transactions deemed material by the Corporate Governance Communiqué; and (v) the information rights in connection with general assembly meetings.

“Tier 1” companies are required to have a number of independent board members sufficient to reflect the ratio of the free-float shares; provided that such independent members will constitute at least one-third of the board of directors. The general assembly is authorised to limit the maximum number of independent board members to half of the entire board. However; “Tier 1” companies can apply to the CMB in order to limit the number of independent board members to two, irrespective of the ratio of the company’s free-float shares, as long as at least 51% of their share capital is equally owned by two independent shareholders contractually sharing equal management control but having no direct or indirect shareholding, management or audit relationship among themselves.

The Corporate Governance Communiqué further initiated a pre-assessment system to determine the “independency” of individuals nominated as independent board members in “Tier 1” companies. Those nominated for such positions must be evaluated by the “Nomination Committee” of the board of directors for fulfilling the applicable criteria stated in the Corporate Governance Communiqué. The board of directors is required to prepare a list of nominees based on this evaluation for final review by the CMB, which is authorised to issue a “negative view” on any nominee and prevent their appointment as independent members of the board of directors. The Corporate Governance Communiqué also requires listed companies to establish certain other board committees.

In addition to the mandatory principles regarding the composition of the board and the independent board members, the Corporate Governance Communiqué introduced specific corporate approval requirements for all related party transactions, transactions that may result in a conflict of interest with the company or its subsidiaries and certain other transactions deemed material by the Corporate Governance Communiqué. Accordingly, “material transactions”, which are described as the lease, transfer or establishment of rights *in rem* over the total or a substantial part of the listed company’s assets, acquire or lease of a material asset, establishing privileges or changes in the scope of current privileges and delisting must be approved by the shareholders’ general assembly. The affirmative vote of the majority of the independent board members is required for such “material transactions” to be

submitted to the approval of the general assembly. If the “material transaction” is a related party transaction, such related parties cannot vote at the relevant general assembly.

Also, in the event of granting any guarantee, pledge or mortgage in favor of third parties, or in the event of any related party transactions, the affirmative vote of the majority of the independent board members is required. If the majority of the independent directors do not vote in favour of such resolutions, such transaction will be subject to the approval of the shareholders’ general assembly, which will convene without required meeting quorums.

In 2007, the CMB had issued a rating communiqué enabling rating agencies to rate companies on the basis of their compliance with the applicable principles. In 2008, following a corporate governance rating report issued by SAHA Corporate Governance and Credit Rating Services Inc., Yapı Kredi was included among the leading companies that form the Istanbul Stock Exchange Corporate Governance Index. The report provided Yapı Kredi with a corporate governance rating of 8.02 out of 10. In 2011, following a repeated review by SAHA Corporate Governance and Credit Rating Services Inc., Yapı Kredi’s corporate governance rating was upgraded to 8.80.

Compensation

The Bank’s compensation policy aims to remunerate fairly and in a manner that is appropriate to the nature of work and structure of the general market or the sector, in order to enhance talent and key staff attraction/retention capability and people motivation. The compensation package is composed of base pay and variable pay. The variable pay is linked to the realisation of the Bank’s strategic targets.

In general, base pay depends upon the position and the work completed and variable pay depends on performance. Thus, the compensation system allows the bank to reward employees according to their level of contribution and responsibility to reach the goals of the institution.

Salaries and other benefits paid to the Group’s senior management amounted to approximately TL30,808 thousand as of 31 December 2010, TL35,238 thousand as of 31 December 2009 and TL31,304 thousand as of 31 December 2008.

UniCredit Relationship

As a result of the Group’s relationship with the UniCredit Group, the Group receives assistance from the UniCredit Group in identifying candidates to fill management roles within the Group. However, the Group’s management may also be appointed to other roles within the UniCredit Group. For example, in June 2010, the Bank’s former Chief Risk Officer was appointed to a more senior position at another entity within the UniCredit Group. The Board resolved on 30 July 2010 to apply to the BRSA in order to appoint Wolfgang Schilk, a senior executive from UniCredit Group, as Chief Risk Officer. This appointment was confirmed as of October 2010.

Conflicts

None of the members of the Bank’s Board of Directors or Senior Management have any existing or potential conflicts of interests with respect to their duties to the Bank and their private interests or other duties.

SHARE CAPITAL AND OWNERSHIP

Share Capital

The Bank's share capital consists of 434,705,128.40 thousand authorised shares with a nominal value of TL0.01 each. The Bank's shares are listed on the Istanbul Stock Exchange and its global depositary receipts are listed on the London Stock Exchange.

The Bank's issued and fully paid up share capital was held as of the dates specified as follows:

	As of 30 June 2011		As of 31 December 2010		As of 31 December 2009		As of 31 December 2008	
Shareholders	Ownership	Capital	Ownership	Capital	Ownership	Capital	Ownership	Capital
	(%)	(TL, thousand)	(%)	(TL, thousand)	(%)	(TL, thousand)	(%)	(TL, thousand)
Koç Financial Services A.Ş....	81.80	3,555,712	81.80	3,555,712	81.80	3,555,712	81.80	3,555,712
Others shareholders (minorities)	18.20	791,339	18.20	791,339	18.20	791,339	18.20	791,339
Historical share capital	100.0	4,347,051	100.0	4,347,051	100.0	4,347,051	100.00	4,347,051
Adjustment to share capital...		(60,471)		(60,471)		(60,471)		(60,471)
Share premium		535,679		535,679		535,679		535,679
Total share capital and share premium		4,822,259		4,822,259		4,822,259		4,822,259

On 18 January 2012, the Board decided to increase the registered capital ceiling from TL5 billion, the maximum level that the Board is authorised to increase the share capital absent a resolution of the General Assembly, to TL10 billion. Such increase of the registered capital ceiling is also subject to the approvals of the CMB and the BRSA.

Ownership

Yapı Kredi's controlling shareholder is Koç Financial Services ("KFS") with an 81.8% stake. The remaining 18.2% of Yapı Kredi's shares are publicly traded and held by minority shareholders. The direct or indirect acquisition of shares, which represent 10% or more of the share capital of any bank, or the direct or indirect acquisition or transfer of shares resulting in the total number of shares held by a shareholder to increase above or fall below 10%, 20%, 33% or 50% of the share capital of a bank, requires the permission of the BRSA. In addition, irrespective of the thresholds above, an assignment and transfer of privileged shares with the right to nominate a member to the board of directors or audit committee or issuance of new shares with such privileges is also subject to the authorisation of the BRSA.

Controlling Shareholders

Koç Financial Services

KFS is a financial holding company and an equal share (50%/50%) joint venture between the Koç Group and UniCredit Group. In connection with the establishment of the joint venture, UniCredit Group and Koç Group entered into a shareholders' agreement to govern various aspects of the management of KFS and the Bank (the "Shareholders' Agreement"). The Shareholders' Agreement includes an agreement between the parties to ensure that both are represented equally on the Board of Directors of KFS and the Bank and their various committees and among the senior management and sets out terms under which the shareholders may dispose of their relevant stakes in KFS. In addition, the parties agree not to compete with the Bank in the Turkish banking market.

Koç Holding A. S.

Koç Holding is one of Turkey's largest conglomerates in terms of turnover, exports, market capitalisation and number of employees with operations in the energy, automotive, consumer durables and finance sectors, employing approximately 73,000 employees. Koç Holding derives its strength from a large distribution network and after sales services, a wide customer base in different business segments together with strong customer relationship management capabilities enabling efficient upward and cross selling, leading brands and strong recognition and optimum portfolio diversification. Koç Holding had total sales that correspond to 7% of Turkey's GDP and exports that comprise 10% of Turkey's total exports as of 31 December 2010. As of 30 June 2011, Koç Holding generated U.S.\$21.8 billion in total revenue and accounted for 10% of Turkey's total export volume.

UniCredit and the UniCredit Group

UniCredit S.p.A. (“**UniCredit**”) is a bank incorporated as a joint-stock company under Italian law, with registered office at Via A. Specchi, 16, 00186, Rome, Italy, and with head office and principal centre of business at Piazza Cordusio, 20123, Milan, Italy.

UniCredit is the parent holding company of the *Gruppo UniCredit* registered with the Register of Banking Groups held by the Bank of Italy pursuant to Article 64 of the Italian Banking Act under number 02008.1 (the “**UniCredit Group**”).

UniCredit Group is a global financial institution with an established presence in 22 countries through local domestic banks and an extensive international presence via representative offices, branches and specialised banks. The UniCredit Group is strategically positioned in its primary markets where it has become a market leader in several geographic areas such as Italy, southern Germany, Austria, Poland and central-eastern Europe where the UniCredit Group is a market leader.

UniCredit Group focuses on full-service financial services and is engaged in a wide range of banking, financial and related activities (including deposit-taking, lending, asset management, securities trading and brokerage, investment banking, international trade finance, corporate finance, leasing, factoring and the distribution of certain life insurance products through bank branches) throughout Italy, Germany, Austria, Poland and other central-eastern European countries.

UniCredit Group serves its customers through its multi-channel distribution network comprising at 30 June 2011, over 9,500 branches across 22 countries and a network of licensed financial consultants operating in Italy, as well as internet and telephone banking capabilities.

At 30 June 2011, the UniCredit Group had more than 160,000 (full time equivalent) employees.

UniCredit Bank AG, as lead manager and the Issuer are affiliates of UniCredit S.p.A., the parent company of the UniCredit Group. Further information about this relationship is set out in “*Related Party Transactions*”.

RELATED PARTY TRANSACTIONS

Overview

Related parties include entities that are directors, shareholders or affiliates of, or entities under common management or control with, Yapı Kredi. Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Group is controlled by Koç Group and UCI, owning 50% of the ordinary shares each of KFS and as a result, both UCI and Koç Group are considered related parties of the Group.

Related Party Balances and Transactions

All of the related party credit applications must go through the Group's normal credit review process. All extensions of credit to the related parties are made on an arm's length basis and the credit and payment terms in respect of such credits are no more favourable than those offered to third parties.

Turkish banking regulations limit exposure to related parties to 20% of the total capital. The Group's exposure to Koç Group and UCI and the Group's affiliates was 10.8% as of 30 June 2011, well within the limit permitted by the regulations.

The following tables present related party balances and transactions as of and for the periods indicated:

(i) Balances with related parties:

	As of 30 June		As of 31 December					
	2011		2010		2009		2008	
	Total	Share in total	Total	Share in total	Total	Share in total	Total	Share in total
	(TL, thousand)	%	(TL, thousand)	%	(TL, thousand)	%	(TL, thousand)	%
Loans and advances to customers, net.....	1,211,590	2	1,663,655	3	1,073,663	3	595,140	1
Trading and investment securities.....	3,211	—	179	—	22,359	—	76,298	—
Derivative financial instruments.....	5,660	2	11,217	2	20,133	3	2,458	1
Loans and advances to banks.....	46,520	2	5,657	—	1,423	—	210,261	6
Other assets.....	225	—	761	—	139	—	4,473	—
Total assets.....	1,267,206		1,681,469		1,117,717		888,630	
Customer deposits.....	6,603,964	11	7,471,208	14	4,270,341	10	4,241,753	10
Funds borrowed.....	2,638,294	19	2,187,131	18	1,167,800	14	1,353,230	14
Derivative financial instruments.....	6,589	2	6,395	2	3,395	1	9,585	4
Other liabilities.....	1,358	—	3,136	—	1,694	—	1,371	—
Deposits from banks.....	469,250	5	3	—	166	—	24,910	2
Total liabilities.....	9,719,455		9,667,873		5,443,396		5,630,849	
Commitment under derivative instruments.....	917,570	2	868,457	1	1,088,205	3	711,872	4
Credit related commitments.....	917,068	4	755,890	4	606,281	4	633,294	4
Total commitments and contingent liabilities.....	1,834,638		1,624,347		1,694,486		1,345,166	

(ii) Transactions with related parties:

	Six months ended 30 June				Year ended 31 December					
	2011		2010		2010		2009		2008	
	Total	Share in total	Total	Share in total	Total	Share in total	Total	Share in total	Total	Share in total
	(TL, thousand)	%	(TL, thousand)	%	(TL, thousand)	%	(TL, thousand)	%	(TL, thousand)	%
Interest income on loans and advances to customers	35,984	1	58,385	3	111,750	2	91,771	2	105,898	2
Fee and commission income	8,529	1	9,828	1	17,802	1	27,294	1	10,486	1
Interest income on financial leases	—	—	1,096	1	—	—	1,414	1	2,689	1
Interest income on loans and advances to banks	100	—	40	—	92	—	14	—	102	—
Other operating income	16,375	29	2,108	2	4,070	2	9	—	1,899	1
Total interest and fee income	60,988		71,457		133,714		120,502		121,074	
Interest expense on deposits	(228,768)	11	(107,946)	10	(320,623)	14	(328,426)	11	(447,310)	11
Interest expense on funds borrowed	(13,614)	—	(278)	—	(16,788)	4	(23,864)	5	(28,409)	4
Other operating expense	(6,305)	1	(3,504)	—	(9,396)	—	(8,820)	—	(514)	—
Fee and commission expense	(2)	—	(2)	—	(2)	—	(2)	—	(4,131)	1
Total interest and fee expense	(248,689)		(111,730)		(346,809)		(361,112)		(480,364)	

(iii) Balances with directors and other key management personnel:

	As of 30 June	As of 31 December		
	2011	2010	2009	2008
Loans and advances to customers, net	116	232	177	339
Interest income on loans and advances to customers	2	6	10	16
Customer deposits	35,755	29,590	35,932	25,866
Interest expense on deposits	502	421	369	592
Fee and commission income	—	—	—	—
Commitments and contingent liabilities	—	—	—	—

TURKISH BANKING SYSTEM

The following information relating to the Turkish banking market has been provided for background purposes only. The information has been extracted from third party sources that the Bank believes to be reliable but the Bank has not independently verified such information.

The data provided in this section has been derived from information of The Banks Association of Turkey. As of the date of this Offering Memorandum, data as of 30 June 2011 was available.

At 30 June 2011, 42 banks were operating in Turkey (excluding SDIF and participation banks). Three of these banks are public sector commercial banks, 10 are private sector commercial banks, 16 are foreign banks (branches of foreign banks and joint ventures between Turkish and foreign shareholders), 13 are domestic development and investment banks. There are also four participation banks in Turkey, which conduct their business under the relevant legislation in accordance with Islamic banking principles. Turkish banking legislation has changed substantially during the last five years and the former Banks Act was replaced by the Banking Law on 1 November 2005. The Banking Law permits commercial banks to engage in all fields of financial activities including deposit taking, corporate and consumer lending, foreign exchange transactions, certain capital markets activities, securities trading and investment banking (except collecting participation funds) and financial leasing activities.

The Turkish banking system has become increasingly competitive over the last decade. The expansion of the Turkish banking sector was initially fuelled by economic growth and liberalization of the economy and has gone through a rapid and significant consolidation as many banks with weaker financial standing were taken over by the SDIF and removed from the sector. The Government has also contributed to structural improvements in the banking system through various regulatory arrangements, including standardised accounting practices, external auditing, higher capital adequacy standards, stricter treatment of non-performing credits and the proposed phasing out of deposit insurance. The objective of these regulatory changes has been to strengthen the banking sector and to increase the transparency and overall efficiency of the Turkish banking sector.

Following the financial crisis in 2001, the BRSA started to intervene actively in the banking sector. The BRSA is an autonomous and independent body and is the sole regulatory and supervisory authority for the Turkish banking system. The BRSA required privately owned commercial banks that have the authority to accept deposits to undergo a three tier audit process in 2001, which was strictly monitored by the BRSA. The three tier audit process was by far the most comprehensive audit completed on Turkish banks, comprising a full audit by two independent auditors as well as BRSA auditors. A detailed analysis of each bank's cash flows was undertaken, with a significant proportion of its credits being evaluated and an aggressive position taken on classifying credits as non-performing. The most conservative of the three audit reports was then delivered to the BRSA to enable it to evaluate each bank's financial position. This process was completed by mid-2002. Moreover, in line with the regulations of the former Banks Act, banks established risk management departments reporting directly to their respective boards of directors. Accordingly, since 2002 risks taken by Turkish banks in terms of market, credit and operations are required to be calculated and monitored by these risk management departments.

The following table sets out certain statistical information for the Turkish banking sector as of 30 June 2011 under bank only BRSA reporting standards:

	Public sector banks	Private sector banks	Foreign banks	Development and investment banks	Total
			(TL thousands)		
Total assets	341,974,399	575,299,534	144,661,099	33,988,369	1,095,923,401
Total loans, net.....	172,738,489	320,368,274	86,985,462	22,382,475	604,474,700
Total deposits	245,776,994	328,296,582	85,942,004	—	660,015,580
Total equity	29,588,226	70,925,091	17,323,885	14,843,308	132,680,510
Net income	2,704,763	5,840,912	992,190	460,688	9,998,553
Number of branches	2,855	4,927	1,885	43	9,710
Number of employees.....	49,423	88,907	37,734	5,235	181,299
Number of banks.....	3	10	16	13	42

Source: *The Banks Association of Turkey*.

Note: Banks controlled by the SDIF and participation banks are not included in these figures.

The public and private sector commercial banks form the majority of the Turkish banking sector in terms of assets and operations. The three public sector banks, which all have large branch networks, were originally established with social rather than profit objectives, principally to provide services to certain sectors of the working population. Private sector commercial banks are comprised of full service banks and corporate/trade finance oriented banks. The four largest private commercial banks are Türkiye İş Bankası, Akbank, Türkiye Garanti Bankası, and the Bank. These banks provide a large proportion of retail banking services and related financial products to the Turkish population in addition to providing large Turkish corporations and Turkish subsidiaries of large foreign companies with corporate and foreign trade related banking services.

In recent years, the liberalisation of the Turkish economy has resulted in an increase in the number of foreign banks operating in Turkey, either as locally incorporated banks, branches or joint ventures with domestic banks. For example, BNP Paribas acquired 50.0% of the shares of TEB Mali Yatırımlar A.Ş., which owns 84.3% of the shares of TEB A.Ş., in February 2005. In September 2005, Koç Finansal Hizmetler A.Ş., 50.0% of which is owned by UniCredito Italiano, acquired 57.4% of the Bank. In July 2005, Fortis Bank acquired 89.3% of Türk Dış Ticaret Bankası A.Ş. Also in July 2005, Rabobank agreed to purchase 51% of Şekerbank. In August 2005, General Electric Financial Services purchased 25.5% of Garanti Bankası. In September 2005, Bank Hapoalim BM acquired Bank Pozitif ve Kalkınma Bankası for U.S.\$113.0 million. In May 2006, Tekfenbank was acquired by EFG Eurobank Ergasias S.A. for U.S.\$182.0 million. In June 2006, TuranAlem Securities of Kazakhstan, a wholly owned subsidiary of BTA Bank, acquired 34.0% of Şekerbank's shares. NBG acquired from Fiba Holding and affiliates a 46.0% stake in the ordinary shares of Finansbank and 100% of the founder shares for a total consideration of U.S.\$2.8 billion in August 2006. In January 2007, NBG acquired a further 43.4% of Finansbank's publicly held outstanding ordinary shares. Denizbank was acquired in October 2006 from Zorlu Group by Dexia for U.S.\$2.4 billion. On January 2007, Citi Group acquired a 20% equity stake in Akbank. On July 2007, Turkishbank was acquired by National Bank of Kuwait for U.S.\$160 million. ING acquired Oyakbank for U.S.\$2.7 billion in 2007. On November 2010, General Electric Co. agreed to sell its 18.6% stake in Garanti Bank to Banco Bilbao Vizcaya Argentaria S.A. for U.S.\$3.8 billion, and Doğuş Holding A.Ş. agreed to sell its 6.3% stake in the bank for U.S.\$2 billion. In December 2010, Credit Europe Bank N.V. acquired a 95% stake in Turkey based Millennium Bank AS, a subsidiary of Banco Comercial Português SA (BCP), for a total adjusted price of EUR 58.9 million and later amended its corporate title to Fibabanka A.Ş. In June 2010, Türk Ekonomi Bankası's main partners announced their agreement to merge with Fortis Bank under the auspices of Türk Ekonomi Bankası. The merger was completed in March 2011. On 27 October 2011, the BRSA approved the application of Bank Audi s.a.l-Audi Saradar Group to establish a new deposit bank in Turkey, the initial capital of which will be the Turkish Lira equivalent of USD300 million. This approval by the BRSA would be the first authorisation granted to establish a "deposit bank" since 1997.

Development banks are funded by international banks and institutions such as the World Bank. Their objective is to provide medium and long-term financing to Turkish companies that cannot raise such funding easily through the market. These banks do not accept customer deposits.

Public Sector Commercial Banks

There are three public sector commercial banks within Turkey, all or a majority of which are owned or controlled by state entities. They generally have large branch networks and were originally established for development purposes, such as for agriculture, housing or foundations, rather than for profit motives. The following table sets out the three state owned commercial banks in Turkey, ranked by size of assets at 30 June 2011 under bank only BRSA reporting standards:

Bank	Specialization	Total assets	Number of branches
		(TL thousands)	
T.C. Ziraat Bankası.....	Agriculture	170,093,736	1,428
Türkiye Vakıflar Bankası	Retail	86,319,133	671
Türkiye Halk Bankası	General	85,561,530	756

Source: The Banks Association of Turkey.

According to the Banks Association of Turkey, total loans provided by these banks as of 30 June 2011, were TL172,738 million. Through their broad branch networks and ownership structures, these banks have traditionally been able to collect deposits and thereby access cost efficient funding sources.

T.C. Ziraat Bankası and Türkiye Halk Bankası are jointly managed by a single Board of Directors and have been restructured with the intention of ultimately privatizing these banks. In addition, Pamukbank, a bank under the control of the SDIF, was merged with Türkiye Halk Bankası at the end of 2004.

Banks under the Control of the SDIF

Following financial crises in 2001 and 2002, 19 private commercial banks were taken under the control of the SDIF. These banks have either been liquidated or sold to other domestic and international banks. At 30 June 2011, only Birleşik Fon Bankası, with total assets of TL804 million and one branch, and Adabank, with total assets of TL51 million and one branch are under the supervision and administration of the SDIF. Birleşik Fon Bankası has been incorporated by the SDIF by merging the assets of Egebank A.Ş., Etibank A.Ş., İktisat Bankası T.A.Ş., Kentbank A.Ş. and Toprakbank A.Ş. into Bayındırbank A.Ş. and by converting the latter into Birleşik Fon Bankası A.Ş. Adabank is under an ongoing sale process expected to be approved by the BRSA.

A continued environment of decreasing inflation, declines in yields on trading in government securities and a reduction in the coverage of the SDIF could contribute to a higher level of calls on SDIF insurance and of further consolidation in the banking sector.

Private Sector Commercial Banks

Private sector commercial banks can be divided into large branch network commercial banks and small branch network commercial banks. The larger private sector banks emerged in the 1940s and their branch networks cover the entire country. Most private sector banks belong to large industrial groups, which provide additional support to the banks.

The following table ranks the larger branch network commercial private sector banks by asset size at 30 June 2011, under bank only BRSA reporting standards:

Bank	Ownership	Total assets	Number of branches
		(TL thousands)	
Türkiye İş Bankası	Bank Pension Fund; RPP; Floated	147,890,876	1,169
Türkiye Garanti Bankası	Doğuş Group; BBVA; Floated	140,588,690	890
Akbank.....	Sabancı Group; Citibank; Floated	122,432,085	905
Yapı ve Kredi Bankası.....	Koç Holding; UniCredit; Floated	99,037,987	887
Türk Ekonomi Bankası.....	Çolakoğlu Group; BNP; Floated	36,640,838	602
Şekerbank.....	Employee Pension Funds and BTA	14,127,874	266

Source: *The Banks Association of Turkey*.

The liberalisation of Turkey's economy and foreign trade in the 1980s led to profitable opportunities for banks in the field of trade finance. Most of the smaller banks concentrate on wholesale banking with limited retail services.

The following table ranks small branch network commercial private sector banks by assets and number of branches at 30 June 2011:

Bank	Ownership	Total assets	Number of branches
		(TL thousands)	
Tekstilbank.....	Akın Group	2,975,537	44
Anadolubank.....	Habaş Group	5,211,078	86
Alternatif Bank	Anadolu Endüstri Group	5,507,176	57
Turkish Bank	Özyol Group	887,393	21

Source: *The Banks Association of Turkey*.

Despite significant growth in the number of small commercial banks, larger commercial banks (both private and public) continue to dominate the banking sector. Out of 10 privately owned commercial banks, apart from the four largest banks, there are five medium sized commercial banks. The remaining is a small bank, which have negligible market share in all banking activities, having less than TL1 billion in total assets.

Foreign Commercial Banks

The strengthening of regulations and the transparency of the Turkish economy over the past decade has resulted in an increase in the number of foreign commercial banks operating in Turkey. At 30 June 2011, there were sixteen foreign banks in total, 10 of which were locally incorporated banks and six of which were branches of foreign banks.

The table below presents certain information regarding foreign commercial banks in Turkey, together with their asset size, under bank only BRSA reporting standards and number of branches at 30 June 2011:

Bank	Ownership	Total assets (TL thousands)	Number of branches
Locally Incorporated Banks			
Arap Türk Bankası ⁽¹⁾	İş Bankası; Emlak Bankası; Libyan Foreign Bank	2,291,206	6
Citibank.....	Citi Group	6,503,628	37
Denizbank	Dexia Group	31,157,525	540
Deutsche Bank	Deutsche Bank A.G.	2,561,340	1
Eurobank Tekfen	Eurobank EFG, Tekfen Holding	4,645,940	57
Finansbank.....	NBG Group	43,998,689	512
HSBC Bank.....	HSBC	22,038,871	333
ING Bank	ING	20,697,841	327
Fibabanka ⁽²⁾	Credit Europe Bank; BCP	1,690,647	20
Turkland Bank	Arap Bank, BankMed	1,811,596	27
Branches of Foreign Banks			
Habib Bank	Pakistan	71,473	1
Bank Mellat	Iran	3,605,563	3
JP Morgan Chase Bank	United States	832,404	1
Société Générale.....	France	1,093,381	16
The Royal Bank of Scotland	Scotland	1,007,032	3
WestLB AG	Germany	653,963	1

Source: The Banks Association of Turkey.

(1) Under the decision of the Council of Ministers numbered 2011/2011, the assets of Libyan Foreign Bank are frozen. Consequently, the rights arising from the shares owned by Libyan Foreign Bank amounting to 62.37% of the capital of Arap Türk Bankası will be exercised by SDIF until the expiry of the relevant decision of the Council of Ministers.

(2) The corporate title of Millenium Bank A.Ş. was changed to Fibabanka A.Ş. as of 11 May 2011.

Development and Investment Banks

There are three state owned, six privately owned and four foreign development and investment banks in Turkey. The following table presents these banks and their assets and number of branches at 30 June 2011:

Bank	Total assets	Number of branches
	(TL thousands)	
State owned Development Banks		
İller Bankası	10,307,387	19
Türk Exim Bank	6,391,495	2
Türkiye Kalkınma Bankası	1,999,383	1
Privately Owned Development and Investment Banks		
Türkiye Sınai Kalkınma Bankası	8,500,683	4
İMKB Takas ve Saklama Bankası	1,734,538	1
Nurol Yatırım Bankası	193,966	2
Diler Yatırım Bankası	102,967	1
GSD Yatırım Bankası	125,023	1
Aktif Yatırım Bankası	2,375,321	7
Foreign Development and Investment Banks		
BankPozitif Kredi ve Kalkınma Bankası	1,943,617	2
Credit Agricole Yatırım Bankası Türk	69,065	1
Merrill Lynch Yatırım Bankası	223,494	1
Taib Yatırım Bankası	21,430	1

Source: The Banks Association of Turkey.

The banks in this category provide medium and long-term financings to large and medium sized companies on a project basis. The major funding sources of these banks are the Central Bank, international banks and institutions such as the World Bank, the European Investment Bank and various export credit agencies. These banks do not accept deposits and grant credits only on a project basis. They are also active in foreign exchange and securities transactions.

TURKISH REGULATORY ENVIRONMENT

Turkish banks are governed by two primary regulatory authorities in Turkey, the BRSA and the Central Bank.

The Banks Act No. 4389 established the BRSA, which ensures that banks observe banking legislation, supervises the application of banking legislation and monitors the banking system. Accordingly, the BRSA is authorised and obliged to take all steps to assure the effective functioning of the credit system in Turkey and to prevent all transactions and practices which could jeopardise the disciplined and safe functioning of the Turkish banking sector. The BRSA has administrative and financial autonomy. The Banking Law No. 5411, which abolished and replaced the former Banking Law No. 4389, came into force upon publication thereof in the Official Gazette dated 1 November 2005. The Banking Law was passed to increase confidence and stability in financial markets, ensure efficient operation of the credit system, and protect the rights and interest of deposit holders. The Banking Law includes provisions regarding capital adequacy, efficiency of the control and audit to be carried out by the BRSA, creation of market discipline, and enforcing liability insurance requirements for third party service providers to banks, such as sworn auditors and credit rating agencies. Historically, its head office has been in Ankara. However, as of 13 February 2011 and pursuant to Law No. 6111, the head office has been relocated to Istanbul with the migration of functions from Ankara to Istanbul to be completed within two years of such date. Pursuant to Law No. 6111, the Council of Ministers of Turkey has been authorised to extend the migration deadline as necessary.

The Central Bank was founded in 1930 and performs the traditional functions of a central bank, including the issuance of bank notes, implementation of the government's fiscal and monetary policies, regulation of the money supply, management of official gold and foreign exchange reserves, supervision of the banking system and advising the government on financial matters. The Central Bank is empowered to determine the inflation target together with the government, and to adopt a monetary policy in compliance with such target.

The Central Bank exercises its powers independently and is responsible for its affairs within the bounds of the Government's defined policies.

The Central Bank has responsibility for all banks operating in Turkey, including foreign banks. The Central Bank sets mandatory reserve levels and liquidity ratios. In addition, each bank must provide the Central Bank, on a current basis, information adequate to permit off site evaluation of its financial performance, including balance sheets, profit and loss accounts, board of directors' reports and auditors' reports. Under current practice, such reporting is required on a daily, weekly, monthly, quarterly and semi-annual basis, depending upon the nature of the information to be reported. Official certified bank auditors, who are responsible for the on site examination of banks, implement the provisions of the Banking Law and other related legislation, examine on behalf of the BRSA all banking operations and analyse the relationship between assets, liabilities, net worth, profit and loss accounts and all other factors affecting a bank's financial structure.

Pursuant to a regulation regarding the internal systems of banks issued by the BRSA, banks are obligated to establish, manage and develop (for themselves and all of their consolidated affiliates) internal audit and risk management systems commensurate with the scope and structure of their activities, in compliance with the provisions of the regulation. Pursuant to such regulation, the internal audit and risk management systems are to be vested in a department of the bank that has the necessary independence to accomplish its purpose and such department will report to the bank's board of directors. To achieve this, according to the regulation, the internal control personnel cannot also be appointed to work in a role conflicting with their internal control duties.

The Turkish Banking Association acts as a limited organisation of supervision and coordination. All banks in Turkey are obliged to become members of this association. As the representative body of the banking sector, the association aims to examine, protect and promote its members' professional interests; however, despite its regulatory and disciplinary functions, it does not possess any powers to regulate banking.

Shareholding

The direct or indirect acquisition by a person of shares that represent 10% or more of the share capital of any bank or the direct or indirect acquisition or disposition of such shares by a person if the total number of shares held by such shareholder increases above or falls below 10%, 20%, 33% or 50% of the share capital of a bank, requires the permission of the BRSA in order to preserve full voting and other shareholders' rights associated with such shares. In addition, irrespective of the

thresholds above, an assignment and transfer of privileged shares with the right to nominate a member to the board of directors or audit committee or issuance of new shares with such privileges is also subject to the authorization of the BRSA. In the absence of such authorisation, a holder of such thresholds of shares cannot be registered in the share register, which effectively deprives such shareholder of the ability to participate in shareholder meetings or to exercise voting or other shareholders' rights with respect to the shares but not of the right to collect dividends declared on such shares.

The board of directors of a bank is responsible for ensuring that shareholders attending general assemblies have obtained the applicable authorisations from the BRSA. If the BRSA determines that a shareholder has exercised voting or other shareholders' rights (other than the right to collect dividends) without due authorisation as described in the preceding paragraph, then it is authorised to direct the board of directors of a bank to cancel any applicable General Assembly resolutions (including by way of taking any necessary precautions concerning such banks within its authority under the Banking Law). If the shares are obtained on the stock exchange, then the BRSA may also impose administrative fines on shareholders who exercise their rights or acquire or transfer shares as described in the preceding paragraph without BRSA authorisation. Unless and until a shareholder obtains the necessary share transfer approvals from the BRSA, the SDIF has the authority to exercise such voting and other shareholders' rights (other than the right to collect dividends and priority rights) attributable to such shareholder.

Lending Limits

Turkish law sets out certain limits on the asset profile of banks and other financial institutions designed to protect those institutions from excessive exposure to any one counterparty (or group of related counterparties), in particular:

- Credits extended in the amounts of 10% or more of a bank's shareholders' equity are classified as large credits and the total of such credits cannot be more than eight times the bank's shareholders' equity. In this context, "credits" include cash credits and non-cash credits such as letters of guarantee, counter guarantees, sureties, avals, endorsements and acceptances extended by a bank, bonds and similar capital market instruments purchased by it, loans (whether deposits or other), receivables arising from the future sales of assets, overdue cash credits, accrued but not collected interest, amounts of non-cash credits converted into cash and futures and options and other similar contracts, partnership interests and shareholding interests.
- The Banking Law restricts the total financial exposure (including extension of credits, issuance of guarantees, etc.) that a bank may have to any one customer or a risk group directly or indirectly to 25% of its equity capital. In calculating such limit, a credit extended to a partnership is deemed to be extended to the partners in proportion to their liabilities. A risk group is defined as an individual, his or her spouse and children and partnerships in which any one of such persons is a director or general manager as well as partnerships that are directly or indirectly controlled by any one of such persons, either individually or jointly with third parties, or in which any one of such persons participate with unlimited liability. Furthermore, a bank, its shareholders holding 10% or more of the bank's voting rights or the right to nominate board members, its board members, general manager and partnerships directly or indirectly, individually or jointly, controlled by any of these persons or a partnership in which these persons participate with unlimited liability or in which these persons act as directors or general managers constitute a risk group, for which the lending limits are reduced to 20% of a bank's equity capital.
- Loans made available to a bank's controlling shareholders or registered shareholders holding more than 1% of the share capital of the bank and their risk groups may not exceed 50% of the bank's capital equity.

The BRSA determines the permissible ratio of non-cash loans, futures and options, other similar transactions, avals, acceptances, guarantees and sureties, and bills of exchange, bonds and other similar capital markets instruments issued or guaranteed by, and credit and other financial instruments and other contracts entered into with, governments, central banks and banks of the countries accredited with the BRSA for the purpose of calculation of loan limits.

Pursuant to Article 55 of the Banking Law, the following transactions are exempt from the above mentioned lending limits:

- transactions against cash, cash-like assets and accounts and precious metals;
- transactions carried out with the Undersecretariat of Treasury, Central Bank, Privatisation Administration and the Mass Housing Administration, as well as the transactions carried out against bills, bonds and similar securities issued or guaranteed by these institutions;
- transactions carried out with the Central Bank and in legally organised money markets;
- in case of new credit allocations, valuations prompted by the changes in currency rates in credits denominated or indexed to foreign currencies, and interests, profit shares and other such issues accrued on overdue credits;
- bonus shares (scrip issues) received as a result of capital increases, and any increase in the value of shares not requiring any fund outflow;
- interbank operations within the framework of the principles set out by the BRSA;
- shares acquired within the framework of underwriting services for public offering activities *provided that* such shares are disposed of in the time and manner determined by the BRSA;
- transactions considered as “deductibles” in the shareholders’ equity account; and
- other transactions to be determined by the board of the BRSA (the “**BRSB**”).

Loan Loss Reserves

Procedures relating to loan loss reserves for non-performing loans are set out in regulations issued by the BRSA. Pursuant to the Regulation on Provisions and Classification of Loans and Receivables, banks are required to classify their loans and receivables into one of the following groups:

- I. *Standard Loans and Other Receivables*: This group involves loans and other receivables:
 - (1) that have been disbursed to real persons and legal entities with financial creditworthiness;
 - (2) the principal and interest payments of which have been structured according to the solvency and cash flow of the debtor;
 - (3) the reimbursement of which has been made within specified periods, for which no reimbursement problems are expected in the future and which can be fully collected; or
 - (4) for which no weakening of the creditworthiness of the debtor concerned has been found.
- II. *Closely Monitored Loans and Other Receivables*: This group involves loans and other receivables:
 - (1) that have been disbursed to real persons and legal entities with financial creditworthiness, and for the principal and interest payments of which there is no problem at present, but which need to be monitored closely due to reasons such as negative changes in the solvency or cash flow of the debtor, probable materialisation of the latter or significant financial risk carried by the person utilising the loan;
 - (2) whose principal and interest payments according to the conditions of the loan agreement are not likely to be repaid according to the terms of the loan agreement and where the persistence of such problems might result in partial or full non-reimbursement risk;
 - (3) which are very likely to be repaid but where the collection of principal and interest have not been made for justifiable reasons and are delayed for more than 30 days; however, which cannot be considered as loans or other receivables with limited recovery as grouped in group III below; or
 - (4) although the standing of the debtor has not weakened, there is a high likelihood of weakening due to the debtor’s irregular cash flow which is difficult to control.

If the customer has multiple loans from the same bank and at least one of such loans is categorised under group II, whereas the remaining are categorised under group I, all payables of the client to the relevant bank will be categorised under group II.

- III. *Loans and Other Receivables with Limited Collection Ability*: This group involves loans and other receivables:
 - (1) with limited collectability due to the resources of, or the securities furnished by, the debtor being found insufficient to meet the debt on the due date, and where if the problems observed are not eliminated, they are likely to give rise to loss;

- (2) the credibility of whose debtor has weakened and where the loan is deemed to have weakened;
- (3) collection of whose principal and interest or both has been delayed for more than 90 days but not more than 180 days from the due date; or
- (4) in connection with which the bank is of the opinion that by the bank of the principal or interest of the loan or both will be delayed for more than 90 days from the due date owing to reasons such as the debtor's difficulties in financing working capital or in creating additional liquidity.

IV. *Loans and Other Receivables with Remote Collection Ability:* This group involves loans and other receivables:

- (1) that seem unlikely to be repaid or liquidated under existing conditions;
- (2) in connection with which there is a strong likelihood that the bank will not be able to collect the full loan amount that has become due or payable under the terms stated in the loan agreement;
- (3) whose debtor's creditworthiness is deemed to have significantly weakened but which are not considered as an actual loss due to such factors as a merger, the possibility of finding new financing or a capital increase; or
- (4) there is a delay of more than 180 days but not more than one year from the due date in the collection of the principal or interest or both.

V. *Loans and Other Receivables Considered as Losses:* This group involves loans and other receivables:

- (1) that are deemed to be uncollectible;
- (2) collection of whose principal or interest or both has been delayed by one year or more from the due date; or
- (3) for which, although carrying the characteristics stated in groups III and IV, the bank is of the opinion that they have become weakened and that the debtor has lost his creditworthiness due to the strong possibility that it will not be possible to fully collect the amounts that have become due and payable within a period of over one year.

Pursuant to Article 53 of the Banking Law, banks must calculate the losses that have arisen, or are likely to arise, in connection with loans and other receivables. Such calculations must be regularly reviewed. They must also reserve adequate provisions against depreciation or impairment of other assets, qualify and classify assets, receive guarantees and security and measure the reliability and the value of such guarantees and security. In addition, banks must monitor the loans under follow up procedures and the repayment of overdue loans and establish and operate the structures that will perform these functions. All provisions set aside for loans and other receivables in accordance with this article are considered expenditures deductible from the corporate tax base in the year they are set aside.

Turkish law also requires Turkish banks to provide a general reserve calculated at 1% of the cash loan portfolio plus 0.2% of the non-cash loan portfolio (letters of guarantee, acceptance credits, letters of credit undertakings and endorsements) for standard loans; and a general reserve calculated at 2% of the cash loan portfolio plus 0.4% of the non-cash loan portfolio for closely monitored loans. The banks which have total collateral (e.g. letters of guarantee, letters of credit, factoring guarantees, other guarantees and assurances) more than 10 times the capital adequacy amount calculated in accordance with the Regulation on the Equity of Banks apply the general reserve ratio as 0.3% for the standard non-cash loan portfolio). In addition, 25% of the above mentioned rates will be applied for each check that remains uncollected for a period of five years after issuance. Furthermore, the banks which the consumer loans constitute 20% of the total loan portfolio and the banks which the illiquid vehicle and housing loans constitute 8% of the consumer loan portfolio excluding vehicle and housing loans (pursuant to the unconsolidated financial data prepared as of the general reserve calculation period) must provide a general reserve calculated at 4% and 8% for outstanding (but not yet due) consumer loans (excluding vehicle and housing loans) under groups I and II respectively, during the term of such loans. The banks should also set aside general provisions for the amounts monitored under the accounts of "Receivables from Derivative Financial Instruments" on the basis of the sums to be computed by multiplying them by the rates of conversion into credit indicated in Article 12 of the "Regulation on Loan Transactions of Banks" by applying the general provision rate applicable for cash loans. Apart from the general provisions, special provisions must be set aside for

the loans and receivables in groups III, IV and V described above in the amounts of 20%, 50% and 100%, respectively.

The terms of the agreements of loans and other receivables under groups I and II may be amended *provided that* relevant the loans and other receivables continue to satisfy the conditions to be qualified under groups I and II, respectively. However, for both groups, if the amendment results in the extension of the payment plan, the relevant bank will be required to provide additional general reserves. This additional general reserve to be provided in the event of extending the payment plan will be at least five times the general reserve requirement for standard loans under group I; at least 2.5 times the general reserve requirement for closely monitored loans under group II. The annual and interim period financial statements will provide information as to the number of amendments and the extension of the payment plans. Furthermore, for the consumer loans (excluding vehicle and housing loans) the additional reserve will be calculated as 2.5 times and 1.25 for the loans and other receivables categorised under groups I and II respectively.

Pursuant to these regulations, all loans and receivables in groups III, IV and V above, irrespective of whether any interest or other similar obligations of the debtor are applicable on the principal or whether the receivables have been refinanced, are defined as “non-performing loans.” If several loans have been extended to a loan customer by the same bank and if any of these loans is considered a non-performing loan, then all outstanding risks of such loan customer are classified in the same group as the non-performing loan even if such loans would not otherwise fall under the same group as such non-performing loan. If a non-performing loan is repaid in full, then the other loans of the loan customer may be re classified into the applicable group as if they were not related to the non-performing loan.

Banks must also monitor the following types of security based upon their classification: Category I Collateral: Cash, deposits, profit sharing funds and gold deposit accounts that are secured by pledge or assignment agreements; repurchase agreement proceeds secured by promissory notes, debenture bonds and similar securities issued directly or guaranteed by the Central Bank, the Treasury, the Mass Housing Administration or the Privatisation Administration and B-type investment profit sharing funds; member firm receivables arising out of credit cards and gold reserved within the applicable bank; securities issued directly or guaranteed by the central governments or central banks of countries that are members of the OECD and securities issued directly or guaranteed by the European Central Bank; transactions made with the Treasury, Central Bank, the Mass Housing Administration or the Privatisation Administration or transactions that are guaranteed by securities issued directly or guaranteed by such administrations; guarantees issued by banks operating in OECD member countries; and sureties and letters of guarantee issued by banks operating in Turkey in compliance with their maximum lending limits. Category II Collateral: Precious metals other than gold; shares quoted on a stock exchange; A-type investment profit sharing funds; asset-backed securities and private sector bonds except ones issued by the borrower; credit derivatives providing protection against credit risk; the assignment or pledge of accrued entitlements of persons from public agencies; liquid securities, negotiable instruments representing commodities, other types of commodities and movables pledged at market value; mortgages on property registered with the land registry and mortgages on real property built on allocated real estate *provided that* their appraised value is sufficient; export documents appurtenant to bill of lading or carrier’s receipt and negotiable instruments obtained from real or legal persons based upon actual commercial relationships. Category III Collateral: Commercial enterprise pledges, export documents, vehicle pledges, mortgages on aircraft or ships, suretyships of creditworthy natural persons or legal entities and other client promissory notes of natural persons and legal entities. Category IV Collateral: Any other security not otherwise included in Categories I, II or III.

While calculating the special provision requirements for non-performing loans, the value of collateral received from the borrower will be deducted from the non-performing loans in groups III, IV and V above in the following proportions in order to determine the amount that will be subject to special provisioning:

Discount Ratio	(%)
Category I Collateral	100
Category II Collateral.....	75
Category III Collateral	50
Category IV Collateral	25

In case the value of the collateral exceeds the amount of the non-performing loan, the above mentioned rates of consideration are applied only to the portion of the collateral that is equal to the amount of the non-performing loan.

According to Article 11 of the Regulation on Provisions and Classification of Loans and Receivables, in the event of a borrower's failure to repay loans or any other receivables due to a temporary lack of liquidity that the borrower is facing, a bank is allowed to refinance the borrower with additional funding in order to strengthen the borrower's liquidity position or to structure a new repayment plan. Despite such refinancing or new repayment plan, such loans and other receivables are required to be monitored in their current loan groups (whether III, IV or V) for at least the following six month period and to be provided against in line with the relevant loan group provisioning level. After this six month period, if total collections reach at least 15% of the total receivables for restructured loans, then the remaining receivables may be reclassified to the "Refinanced/Restructured Loans and Receivables" account. The bank may refinance the borrower for a second time if the borrower fails to repay the refinanced loan; *provided that* at least 20% of the principal and other receivables are collected on a yearly basis.

The Regulation on Provisions and Classification of Loans and Receivables was recently subject to series of amendments on 9 April 2011, 28 May 2011 and 18 June 2011. According to Provisional Article 5 of the regulation, which will be effective until 31 December 2012, loans and other receivables classified as Closely Monitored Loans and Other Receivables (group II) granted to persons or legal entities residing in Libya or engaged in activities relating to Libya can be restructured twice.

Furthermore, such loans and other receivables subject to a new redemption plan may be classified as Standard Loans and Other Receivables (group I); *provided that* at least 10% of the total sum of receivables has been repaid. If such loans and other receivables become subject to a redemption plan for a second time as a result of new loans having been utilised, then such loans and receivables shall be classified as Loans and Other Receivables with Limited Collection Ability (group III) until 5% of the total sum of receivables has been repaid.

As long as such percentage of payments foreseen in the redemption plan are made within the payment periods envisaged for Loans and Other Receivables with Limited Collection Ability, it is in the bank's discretion to set aside special provisions for such loans and receivables.

Pursuant to Provisional Article 5, if there are loans or any other receivables that are classified in groups III, IV and V, then such loans and/or other receivables shall be classified in the same group with receivables relating to Libya. Until 31 December 2012, and so long as the classification methods as set out in the regulation are complied with, if a borrower fails to repay such loans or any other receivables due to a temporary lack of liquidity, then a bank is allowed to refinance the borrower with additional funding in order to strengthen its liquidity position or to structure a new repayment plan up to three times. Any restructured loans may be transferred to the "Loans Restructured and Tied to a Redemption Plan Account" if:

- at least 5% of the total sum of receivables in the first restructuring has been repaid and the restructured loans have been monitored under their respective group(s) for a period of at least three months,
- at least 10% of the total sum of receivables in the second restructuring has been repaid and the restructured loans have been monitored under their respective group(s) for a period of six months,
- at least 15% of the total sum of receivables in the third restructuring has been repaid and the restructured loans have been monitored under their respective group(s) for a period of one year, and
- the payments foreseen in the payment plan are not delayed.

Capital Adequacy

In November 2006, the BRSA issued new regulations on measurement and assessment of capital adequacy of banks. Article 45 of the Banking Law defines "Capital Adequacy" as having adequate equity against losses that could arise from the risks encountered. Pursuant to the same article, banks must calculate, achieve, perpetuate and report their capital adequacy ratio, which, within the framework of the BRSA's regulations, cannot be less than 8%.

The BRSA is authorised to increase the minimum capital adequacy ratio, to set different ratios for each bank and to revise the risk weights of assets that are based upon participation accounts, but must consider each bank's internal systems as well as its asset and financial structures.

Under the Regulation on Equities of Banks published in the Official Gazette No. 26333 dated 1 November 2006, subordinated loans are grouped as "primary subordinated loans" and "secondary subordinated loans" and are listed as one of the items that constitute Tier II capital. The portion of primary subordinated loans equal to an amount from 15% up to 50% of Tier I capital is included in the calculation of Tier I capital.

According to a BRSA quantitative impact-study published in early 2011, based on Turkish banking data as of March 2010, the implementation of Basel II would have had a negative impact on capital adequacy ratios of approximately 140 basis points across the Turkish banking sector.

Liquidity Reserve Requirement

Article 46 of the Banking Law requires banks to calculate, attain, maintain and report the minimum liquidity level in accordance with principles and procedures to be set out by the BRSB. Within this framework, a comprehensive liquidity arrangement was put into force by the BRSA, following the consent of the Central Bank.

The reserve requirements regarding foreign currency liabilities vary by category, as set forth below.

Category of Foreign Currency Liabilities	Required Reserve Ratio
Demand deposits, notice deposits and private current accounts, precious metal deposit accounts and deposits/participation accounts up to one month, up to three months, up to six months and up to one year maturities.....	11%
Deposits/participation accounts and precious metal deposit accounts with one year and longer maturity and cumulative deposits/participation accounts.....	9%
Other liabilities up to one year maturity (including one year).....	11%
Other liabilities up to three years maturity (including three years).....	9%
Other liabilities longer than three years maturity.....	6%
Special fund pools.....	Ratios for corresponding maturities

The reserve requirements regarding Turkish Lira liabilities vary by category, as set forth below.

Category of Turkish Lira Liabilities	Required Reserve Ratio
Demand deposits, notice deposits and private current accounts.....	11%
Deposits/participation accounts up to one month maturity (including one month).....	11%
Deposits/participation accounts up to three months maturity (including three months).....	11%
Deposits/participation accounts up to six months maturity (including six months).....	8%
Deposits/participation accounts up to one year maturity	6%
Deposits/participation accounts with one year and longer maturity and cumulative deposits/participation accounts.....	5%
Liabilities other than deposits/participation funds up to one year maturity (including one year).....	11%
Liabilities other than deposits/participation funds up to three years maturity (including three years)	8%
Liabilities other than deposits/participation funds longer than three years maturity ...	5%
Special fund pools.....	Ratios for corresponding maturities above

The reserve ratios listed in the table above became effective on 28 October 2011 for Turkish Lira liabilities and on 30 September 2011 for foreign currency liabilities, and the Bank started to maintain the required reserves calculated from these applicable dates.

Starting in September 2010, reserve accounts kept in TL became non-interest bearing (reserve accounts in foreign currencies have not been interest bearing since 2008). As of the date of this

Offering Memorandum, no interest is paid on Turkish Lira or foreign currency liquidity reserve accounts by the Central Bank.

In addition, with a recent “Amendment to the Communiqué regarding Reserve Requirements” published in the Official Gazette dated 12 September 2011, gold deposit accounts have been included in the coverage of the reserve requirements. In accordance with the recent amendments, banks are allowed to maintain (i) up to 40% of their Turkish Lira liabilities in U.S. Dollar and/or Euro, and up to 10% of their Turkish Lira liabilities in standard gold, and (ii) the total amount of reserve requirements maintained for the precious metal deposit accounts and up to 10% of foreign currency liabilities excluding precious metal deposit accounts in standard gold.

The regulations state that the liquidity adequacy ratio of a bank is the ratio of liquid reserves to liabilities of the bank. A bank must maintain a weekly arithmetic average of 100% liquidity adequacy before the first maturity period (up to seven days before the maturity date of liabilities on a weekly average as defined by the regulation) and second maturity period (up to 31 days before the maturity date of liabilities on a monthly average) for its aggregate liabilities and 80% liquidity adequacy for its foreign currency liabilities.

Foreign Exchange Requirements

The ratio of a bank’s foreign exchange net position to its capital base should not exceed 20%, which calculation is required to be made on a weekly basis. The net foreign exchange position is the difference between the Turkish Lira equivalent of a bank’s foreign exchange assets and its foreign exchange liabilities. For the purpose of computing the net foreign exchange position, foreign exchange assets include all active foreign exchange accounts held by a bank and its foreign branches, its foreign exchange indexed assets and its subscribed forward foreign exchange purchases; for purposes of computing the net foreign exchange position, foreign exchange liabilities include all passive foreign exchange accounts held by a bank (including its foreign branches), its subscribed foreign exchange indexed liabilities and its subscribed forward foreign exchange sales. If the ratio of a bank’s net foreign exchange position to its capital base exceeds 20%, then the bank is required to take steps to move back into compliance within two weeks following the bank’s calculation period. Banks are permitted to exceed the legal net foreign exchange position to capital base ratio up to six times per calendar year.

Audit of Banks

According to Article 24 of the Banking Law, banks’ boards of directors shall establish audit committees for the execution of audit and monitoring functions. Audit committees shall consist of a minimum of two members and be appointed from among the members of the board of directors who do not have executive duties. The duties and responsibilities of the audit committee include the supervision of the efficiency and adequacy of the banks’ internal control, risk management and internal audit systems, functioning of these systems and accounting and reporting systems within the framework of the Banking Law and other relevant legislation, and integrity of the information produced; conducting the necessary preliminary evaluations for the selection of independent audit firms by the board of directors; regularly monitoring the activities of independent audit firms selected by the board of directors; and, in the case of holding companies covered by the Banking Law, ensuring that the internal audit functions of the institutions that are subject to consolidation and operate in a coordinated manner, on behalf of the board of directors.

The BRSA, as the principal regulatory authority in the Turkish banking sector, has the right to monitor compliance by banks with the requirements relating to audit committees. As part of exercising this right, the BRSA reviews audit reports prepared for banks by their independent auditing firms. Banks are required to select an independent audit firm in accordance with the regulation of the BRSA related to the authorisation and activities of independent firms to perform auditing of banks. Independent auditors are held liable for damages and losses to relevant parties referred to under the same legislation. Professional liability insurance is required for (a) independent auditors and (b) evaluators, rating agencies and certain other support services (if requested by the service acquiring bank or required by the BRSA). Furthermore, banks are required to consolidate their financial statements on a quarterly basis in accordance with certain consolidation principles established by the BRSA. The year end consolidated financial statements are required to be audited whereas interim consolidated financial statements are subject to only a limited review by independent audit firms.

The reports prepared by independent audit firms are also filed with the CMB if the bank's shares are quoted on the Istanbul Stock Exchange. The CMB has the right to inspect the accounts and transaction records of any publicly traded company. In addition, quarterly reports that are subject to limited review must also be filed with the CMB.

All banks (public and private) also undergo an annual audit by certified bank auditors who have the authority to audit banks on behalf of the BRSA. Audits by certified bank auditors encompass all aspects of a bank's operations, its financial statements and other matters affecting the bank's financial position, including its domestic banking activities, foreign exchange transactions and tax liabilities. Additionally, such audits seek to ensure compliance with applicable laws and the constitutional documents of the bank. The Central Bank has the right to monitor compliance by banks with the Central Bank's regulations through off site examinations.

Savings Deposit Insurance Fund

Article 111 of the Banking Law relates to the SDIF and its principles. The SDIF has been established to develop trust and stability in the banking sector by strengthening the financial structures of Turkish banks, restructuring Turkish banks as needed and insuring the savings deposits of Turkish banks. The SDIF is a public legal entity set up to insure savings deposits held with banks. The SDIF is responsible for and authorised to take measures for restructuring, transfers to third parties and strengthening the financial structures of banks, the shares of which and/or the management and control of which have been transferred to the SDIF in accordance with Article 71 of the Banking Law, as well as other duties imposed on it.

Insurance of Deposits

Pursuant to Article 63 of the Banking Law, savings deposits held with banks are insured by the SDIF. The scope and amount of savings deposits subject to the insurance, the tariff of the insurance premium, the time and method of collection of this premium, and other relevant matters are determined by the SDIF upon consultation with the Treasury, the BRSA and the Central Bank.

Borrowings of the SDIF

The SDIF may borrow in extraordinary situations upon an authorisation from the Treasury by borrowing government debt securities which are issued by the Treasury where it is deemed necessary. Principles and procedures regarding the borrowing of government debt securities, including their interest rates and terms and conditions of repayment to the Treasury, are to be determined together by the Treasury and the SDIF.

Power to Require Advances from Banks

If the assets of the SDIF do not meet the demands on it and the resources of the SDIF are insufficient, then banks may be required to make advances of up to the total insurance premiums paid by them in the previous year to be set off against their future premium obligations.

Contribution of the Central Bank

If the SDIF's resources prove insufficient due to extraordinary circumstances, then the Central Bank will, on request, provide the SDIF with an advance. The terms, amounts, repayment conditions, interest rates and other conditions of the advance will be determined by the Central Bank upon consultation with the SDIF.

Savings Deposits that Are Not Subject to Insurance

Deposits held in a bank by controlling shareholders, the chairman and members of the board of directors or board of managers, general manager and assistant general managers, auditors and by the parents, spouses and children of the above, and deposits, participation funds and other accounts within the scope of criminally related assets set forth in Article 282 of the Turkish Criminal Code and other deposits, participation funds and accounts as determined by the BRSA are not covered by the SDIF's insurance.

Premiums as an Expense Item

Premiums paid by a bank into the SDIF are to be treated as an expense in the calculation of that bank's corporate tax.

Liquidation

In the event of the bankruptcy of a bank, the SDIF is a privileged creditor and may liquidate the bank under the provisions of the Execution and Bankruptcy Act, exercising the duties and powers of the bankruptcy office and creditors' meeting and the bankruptcy administration.

Claims

In the event of the bankruptcy of a bank, holders of savings deposits will have a first degree privileged claim in respect of the part of their deposit that is not covered by the SDIF.

Since 5 July 2004, deposit accounts (Turkish Lira, foreign exchange currency accounts or other accounts linked to precious metals) opened by natural persons in domestic branches are insured by SDIF up to an amount of TL50,000 per person, in each deposit bank.

Cancellation of Banking Licence

If the results of an audit show that a bank's financial structure has seriously weakened, then the BRSA may require the bank's board of directors to take measures to strengthen its financial position. Pursuant to the Banking Law, in the event the BRSA in its sole discretion determines that:

- the assets of a bank are insufficient or are likely to become insufficient to cover its obligations as they become due;
- the bank is not complying with liquidity requirements;
- the bank's profitability is such as to make it unable to conduct its business in a secure manner;
- the regulatory equity capital of such bank is not sufficient or is to likely to become insufficient;
- the assets of such bank have been impaired in a manner weakening its financial structure;
- the by laws and internal regulations of such bank are in breach of the Banking Law, relevant regulations or the decisions of the BRSA;
- such bank fails to establish internal audit, supervision and risk management systems or to effectively conduct such systems or any factor impedes the supervision of such systems; or
- imprudent acts of such bank's managers materially increase or weaken the bank's financial structure.

Then the BRSA may require such bank:

- to increase its equity capital;
- not to distribute dividends for a period to be determined by the BRSA and to transfer its distributable dividend to the reserve fund;
- to increase its loan provisions;
- to dispose of its assets in order to strengthen its liquidity;
- to limit its new investments;
- to cease its long-term investments;
- to comply with the relevant banking legislation;
- to cease its risky transactions; and/or
- to take all actions to decrease any foreign exchange and interest rate risks.

In the event the aforementioned actions are not taken (in whole or in part) by that bank or its financial structure cannot be strengthened despite its having taken such actions, or its financial structure has become so weak that it could not be strengthened, then the BRSA may require such bank:

- to increase its liquidity and/or capital adequacy;
- to dispose of its fixed assets and long-term assets;
- to decrease its operational costs;
- to postpone its payments, excluding the regular payments to be made to its members;
- not to make available any cash or non-cash loans to certain third persons or legal entities;

- to convene an extraordinary General Assembly in order to change the board members or assign new member(s) to the board of directors, in the event any board member is responsible for the failure to apply the aforementioned actions; and/or
- to implement short, medium or long-term plans and projections that are approved by the BRSA to decrease the risks incurred by the bank.

In the event the aforementioned actions are not (in whole or in part) taken by that bank or are not sufficient to cause such bank to continue its business in a secure manner, then the BRSA may require such bank:

- to limit or cease its business for a temporary period;
- to apply various restrictions, including restrictions with respect to resource collection and utilisation;
- to remove from office (in whole or in part) its board members, general manager and deputy general managers and department and branch managers;
- to make available long-term loans that will be secured by the shares or other assets of the controlling shareholders;
- to limit or cease its non-performing operations and to dispose of its non-performing assets;
- to merge with one or more other banks;
- to provide new shareholders in order to increase its equity capital; and/or
- to cover its losses with its equity capital.

In the event: (a) the aforementioned actions are not (in whole or in part) taken by that bank within a period of time set forth by the BRSA or in any case within twelve months, (b) the financial structure of such bank cannot be strengthened despite its having taken such actions or the financial structure of such bank has become so weak that it could not be strengthened even if the actions were taken, (c) the continuation of the activities of such bank would jeopardise the rights of the depositors and the participation fund owners and the security and stability of the financial system, (d) such bank cannot cover its liabilities as they become due, (e) the total amount of the liabilities of such bank exceeds the total amount of its assets, or (f) the controlling shareholders of such bank are found to have made use of that bank's resources for their own interests, directly or indirectly or fraudulently, in a manner that jeopardised the secure functioning of the bank or caused such bank to sustain a loss as a result of such misuse, then the BRSA, with the affirmative vote of at least five of its board members, may revoke the licence of such bank to engage in banking operations and/or to accept deposits and transfer the management, supervision and control of the privileges of shareholders (excluding dividends) of such bank to the SDIF.

In the event that the licence of a bank to engage in banking operations and/or to accept deposits is revoked, then that bank's management and audit will be taken over by the SDIF. Any and all execution and bankruptcy proceedings (including preliminary injunction) against such bank would be discontinued as from the date on which the BRSA's decision to revoke such bank's licence is published in the Official Gazette. From the date of revocation of such bank's licence, the creditors of such bank may not assign their rights or take any action that could lead to assignment of their rights. The SDIF must take measures for the protection of the rights of depositors and other creditors of such bank. The SDIF is required to pay the insured deposits of such bank either by itself or through another bank it may designate. In practice, the SDIF may designate another bank that is under its control. The SDIF is required to institute bankruptcy proceedings in the name of depositors against a bank whose banking licence is revoked.

Annual Reporting

Pursuant to the Banking Law, Turkish banks are required to follow the BRSA's principles and procedures (which are established in consultation with the Turkish Accounting Standards Board and international standards) when preparing their annual and financial reports. In addition, they must ensure uniformity in their accounting systems, correctly record all their transactions and prepare timely and accurate financial reports in a format that is clear, reliable and comparable as well as suitable for auditing, analysis and interpretation.

A bank cannot settle its balance sheets without ensuring reconciliation with the legal and auxiliary books and records of its branches and domestic and foreign correspondents.

The BRSA is authorised to take necessary measures where it is determined that a bank's financial statements have been misrepresented.

When the BRSA requests a bank's financial reports, the chairman of the board, audit committee, general manager, chief financial officer ("CFO") and the relevant unit manager (or equivalent authorities) must sign the reports indicating their full names and titles and declare that the financial report complies with relevant legislation and accounting records. In addition, foreign banks must have the members of the board of managers of their Turkish branches sign the annual reports.

Independent auditors must approve all annual reports that banks present to their general assemblies. When the BRSA request a bank's annual report, the general manager, a representative of the audit committee and the CFO must sign the reports indicating their full names and titles and declare that the annual report complies with relevant legislation and accounting records.

Banks are required to submit their financial reports to related authorities and publish them in accordance with the BRSA's principles and procedures.

Further, banks are required to submit and publish annual reports that comply with the BRSA's established guidelines. These reports include the following information: corporate profile, assessment by the chairman of the board and general manager, details on banking and subsidiaries activities, management and organisation structures, financial situations, corporate governance practices including human recourse implementations, assessment of risk management and policies and a summary of the directors' report and independent auditor's report.

The Regulation on the Preparation and Publication of Annual Reports regulates the procedures and principles regarding the annual reports of banks to be published at the end of each fiscal year. According to the regulation, a bank's financial performance and the risks that it faces need to be assessed in the annual report. The annual report is subject to the approval of the board of directors and must be submitted to shareholders at least 15 days before the annual General Assembly of the bank. Each bank must submit a copy of its annual report to the BRSA by the end of April and keep a copy of it in its headquarters and each branch and publish it on its website by the end of May.

Financial Services Fee

Pursuant to Heading XI of Article 8 of the Law on Fees (Law No. 492) amended by the Law No. 5951, banks are required to pay to the relevant tax office to which their head office reports an annual financial services fee for each of their branches. The amount of the fee is determined in accordance with the population of the district in which the relevant branch is located.

Anti-Money Laundering Policies

Turkey is a member country of the Financial Action Task Force and has enacted laws and regulations to combat money laundering, terrorist financing and other financial crimes. In Turkey, all banks and their employees are obligated to implement and fulfill certain requirements regarding the treatment of activities that may be referred to as money laundering set forth in Law no. 5549 on Prevention of Laundering Proceeds of Crime (the "**Law on the Prevention of Laundering Proceeds of Crime**").

Minimum standards and duties under the Law on the Prevention of Laundering Proceeds of Crime and related legislation include customer identification, record keeping, suspicious transactions reporting, employee training, monitoring activities and designation of a compliance officer.

Suspicious transactions must be reported to the Financial Crimes Investigation Board.

The Bank believes it is in full compliance with the Law on the Prevention of Laundering Proceeds of Crime and the related legislation in effect, namely, the "Regulations on Programme of Compliance with Obligations of Anti-Money Laundering and Combating the Financing of Terrorism" and the "Regulation on Measures Regarding Prevention of Laundering Proceeds of Crime and Financing of Terrorism". These regulations include requirements to have written policies and procedures on anti-money laundering and "know your customer" principles such as, assigning a compliance officer, an audit and review function to test the robustness of anti-money laundering policies and procedures, monitoring customer activities and transactions and employee training.

Basel II

In June 2004, the Basel Committee on Banking Supervision (the "**Basel Committee**") published a report entitled "International Convergence of Capital Measurement and Capital Standards: a Revised

Framework,” which sets out a new capital adequacy framework (commonly referred to as “**Basel II**”) to replace the Basel Capital Accord issued in 1988. Basel II has been adopted in many countries and although it has not yet been fully adopted in Turkey, the BRSA has taken concrete steps for the adoption of Basel II in the near future. Moreover, the addition of operational risk into the capital adequacy calculation under the Basel II Framework has been in effect under BRSA regulation since June 2007. This provision specifies that 15% of the last three years’ average gross income is to be added to the denominator in a bank’s capital adequacy calculation. In March 2011, the BRSA announced that Turkish banks will start to report their calculation of minimum capital requirements with respect to the Basel II Regulation from 1 July 2011 on an unconsolidated basis. Consolidated reporting also commenced in December 2011. As of the date of this Offering Memorandum, Turkish banks are required to report their risk weighted assets calculated under the standard approach of Basel II as contained in the “Turkish National Discretions”. This reporting period is seen as a “parallel run”, since banks will continue to report their risk weighted assets under both Basel I and Basel II requirements until 30 June 2012. From 30 June 2012, only Basel II standard approach requirements will be official in the credit risk report for minimum capital calculations.

Basel III

In December 2009, the Basel Committee published a draft proposal of a new regulatory regime for capital and liquidity standards for banks (“**Basel III**”). A comprehensive quantitative impact study was conducted by banks during the spring 2010 based on the Basel III draft proposal, and the Basel Committee is issued a final comprehensive framework in December 2010. The trading and securitisation reforms included in the framework are due to be implemented by the end of 2011 to the extent they have not already become effective. The majority of the other Basel III requirements are expected to be implemented between 1 January 2013 and 1 January 2019.

The Basel III framework includes several key initiatives, which change the Basel II framework. The key changes are, among others:

- The quality, consistency and transparency of the capital base are increased. In the new framework, the regulatory deductions should mainly be applied to the common equity component of the capital base. Further, to be eligible as Tier I and Tier II capital, instruments would need to meet more stringent requirements.
- The risk coverage is further strengthened, which impacts the calculations of risk weighted assets. These changes concern increased capital requirement for trading book and re securitisation activities, and the changes are expected to be implemented in December 2011 throughout Europe. Further changes, to be implemented from 2013, are proposed under the Basel III framework for counterparty credit risk in OTC instruments and exposures to banks and other financial intermediaries. In particular, a new capital requirement is proposed for risk of changes in the credit value adjustment (“CVA”).
- New minimum requirements and capital buffer requirements are increased. The Basel Committee has defined increased minimum thresholds that banks should at all times exceed, that is, minimum 4.5% common equity Tier I ratio, 6% Tier I ratio and 8% capital ratio. In addition, the Basel III framework introduces a capital conservation buffer of 2.5% on top of these minimum thresholds. If banks do not meet this buffer, constraints will be imposed on the bank’s capital distribution, such as dividends. Also, in periods of excess growth, banks will be required to hold an additional countercyclical buffer of up to 2.5% in order not to face restrictions.

As the quality of the capital base is already high with common equity constituting the majority of the capital base, the Bank expects that the impact of the Basel III framework on its capital base will be limited and believes that it is already in compliance with the capital requirements set forth within the Basel III framework.

The Basel Committee has also proposed that the risk sensitive capital framework should be supplemented with a non-risk based measure, the leverage ratio. The leverage ratio will be calculated as the Tier I capital divided by the exposure (on and off-balance sheet exposures, with certain adjustments for selected items such as derivatives). A minimum leverage ratio of 3% will be evaluated during a parallel run period. Another new key component of the Basel III framework is the introduction of increased regulations for liquidity risks. The objective of the liquidity reform is to improve the banking sector’s ability to absorb shocks arising from financial and economic stress, whatever the source, thus reducing the risk of spillover from the financial sector to the real economy. The Basel Committee has developed two new quantitative liquidity standards as part of the Basel III

framework, which are the liquidity coverage ratio (“**LCR**”) and the net stable funding ratio (“**NSFR**”). The LCR aims to ensure that a bank maintains an adequate level of unencumbered, high quality assets that can be converted into cash to meet its liquidity needs for a 30 day time horizon under an acute liquidity stress scenario. The NSFR, on the other hand, establishes a minimum acceptable amount of stable funding, based on the liquidity characteristics of an institution’s assets and activities over a one year horizon. These standards aim to set the minimum levels of liquidity for internationally active banks.

CONDITIONS OF THE NOTES

The following is the text of the Conditions of the Notes which (subject to modification and except for the paragraphs in italics) will be endorsed on the Certificates issued in respect of the Notes:

The USD 500,000,000 6.75 per cent. Notes due 2017 (the “**Notes**”, which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 15 and forming a single series with the Notes) of Yapi ve Kredi Bankası A.Ş. (the “**Issuer**”) are issued subject to and with the benefit of an Agency Agreement dated 8 February 2012 (such agreement as amended and/or supplemented and/or restated from time to time, the “**Agency Agreement**”) made between the Issuer, The Bank of New York Mellon (Luxembourg) S.A. as registrar (the “**Registrar**”) and The Bank of New York Mellon, London Branch, as fiscal agent and principal paying agent (the “**Fiscal Agent**”) and the other initial paying agents named in the Agency Agreement (together with the Fiscal Agent, the “**Paying Agents**”) and the other agents named in it (together with the Fiscal Agent, the Registrar and the other Paying Agents, the “**Agents**”). The holders of the Notes (the “**Noteholders**”) are entitled to the benefit of a Deed of Covenant (the “**Deed of Covenant**”) dated 8 February 2012 and made by the Issuer. The original of the Deed of Covenant is held by the Fiscal Agent on behalf of the Noteholders at its specified office.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Agency Agreement. Copies of the Agency Agreement are available for inspection during normal business hours by the Noteholders at the specified office of each of the Paying Agents. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant. References in these Conditions to any Agent shall include any successor appointed under the Agency Agreement.

The owners shown in the records of Euroclear, Clearstream, Luxembourg and DTC of book-entry interests in Notes are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant.

1. FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Notes are issued in registered form in amounts of USD 200,000 (referred to as the “**principal amount**” of a Note) and in integral multiples of USD 1,000 thereafter. A note certificate (each a “**Certificate**”) will be issued to each Noteholder in respect of its registered holding of Notes. Each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Noteholders which will be kept by the Registrar and at the registered office of the Issuer. The Notes are issued pursuant to the Turkish Commercial Code (Law No. 6762), the Capital Markets Law (Law No. 2499) Article 15/b of Decree 32 on the Protection of the Value of the Turkish Currency and Articles 6 and 25 of the Communiqué Serial II, No. 22 of the Turkish Capital Markets Board on Registration and Sale of Debt Instruments.

The Notes are not issuable in bearer form.

1.2 Title

Title to the Notes passes only by registration in the register of Noteholders. The holder of any Note will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions, “**Noteholder**” and (in relation to a Note) “**holder**” means the person in whose name a Note is registered in the register of Noteholders.

For a description of the procedures for transferring title to book-entry interests in the Notes, see “Book-Entry Clearance Systems”.

2. TRANSFERS OF NOTES AND ISSUE OF CERTIFICATES

2.1 Transfers

A Note may be transferred by depositing the Certificate issued in respect of that Note, with the form of transfer on the back duly completed and signed, at the specified office of the Registrar or any of the other Agents.

For a description of certain restrictions on transfers of interests in the Notes, see “Transfer Restrictions”.

2.2 Delivery of new Certificates

Each new Certificate to be issued upon a transfer of the Notes will, within five business days of receipt by the Registrar or the relevant Agent of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Note to the address specified in the form of transfer. For the purposes of this Condition 2, “**business day**” shall mean a day on which banks are open for business in the city in which the specified office of the Agent with whom a Certificate is deposited in connection with a transfer is located.

Except in the limited circumstances described in “The Global Certificates – Registration of Title”, owners of interests in the Notes will not be entitled to receive physical delivery of Certificates. Issues of Certificates upon transfer of Notes are subject to compliance by the transferor and transferee with the certification procedures described above and in the Agency Agreement and, in the case of Restricted Notes, compliance with the Securities Act Legend.

Where some but not all of the Notes in respect of which a Certificate is issued are to be transferred a new Certificate in respect of the Notes not so transferred will, within five business days of receipt by the Registrar or the relevant Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Notes not so transferred to the address of such holder appearing on the register of Noteholders or as specified in the form of transfer.

2.3 Formalities free of charge

Registration of transfer of Notes will be effected without charge by or on behalf of the Issuer or any Agent but upon payment (or the giving of such indemnity as the Issuer or any Agent may reasonably require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

2.4 Closed Periods

No Noteholder may require the transfer of a Note to be registered during the period of 15 days ending on the due date for any payment of principal or interest on that Note.

2.5 Regulations

All transfers of Notes and entries on the register of Noteholders will be made subject to the detailed regulations concerning transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests one.

3. STATUS

The Notes are senior, direct, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and (subject as provided above) rank and will rank *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors’ rights.

4. NEGATIVE PLEDGE

4.1 Negative Pledge

So long as any Note remains outstanding (as defined in the Agency Agreement) the Issuer will not create or have outstanding any mortgage, charge, lien, pledge or other security interest (each a “**Security Interest**”) upon, or with respect to, any of its present or future business, undertaking, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness (as defined below), unless the Issuer, in the case of the creation of a Security Interest, before or at the same time and, in any other case, promptly, takes any and all action necessary to ensure that:

- (a) all amounts payable by it under the Notes are secured by the Security Interest equally and rateably with the Relevant Indebtedness; or

- (b) such Security Interest is terminated; or
- (c) such other Security Interest is provided as is approved by an Extraordinary Resolution (which is defined in the Agency Agreement as a resolution duly passed by not less than three-quarters of the votes cast) of the Noteholders.

Nothing in this Condition 4 shall prevent the Issuer from creating or permitting to subsist any Security Interest upon, or with respect to, any present or future assets or revenues or any part thereof which is created pursuant to (i) a bond, note or similar instrument whereby the payment obligations are secured by a segregated pool of assets (whether held by the Issuer or any third party guarantor) (any such instrument, a “**Covered Bond**”), or (ii) any securitisation of receivables, asset-backed financing or similar financing structure (including, but not limited to, transactions under the Issuer’s DPR securitisation programmes) (created in accordance with normal market practice) whereby all payment obligations secured by such Security Interest or having the benefit of such Security Interest are to be discharged principally from such assets or revenues (or in the case of Direct Recourse Securities, by direct unsecured recourse to the Issuer), provided that the aggregate value of assets or revenues subject to any Security Interest created in respect of (A) Covered Bonds and (B) any other secured Relevant Indebtedness (other than Direct Recourse Securities) of the Issuer, when added to the nominal amount of any outstanding Direct Recourse Securities, does not, at any time, exceed 15 per cent. of the consolidated total assets of the Issuer (as shown in the most recent audited consolidated financial statements of the Issuer prepared in accordance with IFRS).

4.2 Interpretation

For the purposes of these Conditions:

Direct Recourse Securities means securities issued in connection with any securitisation of receivables or other payment rights, asset-backed financing or similar financing structure (created in accordance with normal market practice) and whereby all payment obligations secured by such Security Interest or having the benefit of such Security Interest are to be discharged principally from such assets or revenues, or by direct unsecured recourse to the Issuer; and

Relevant Indebtedness means (i) any present or future indebtedness (whether being principal, premium, interest or other amounts) for or in respect of any notes, bonds, debentures, debenture stock, loan stock or other securities which are for the time being quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other organised securities market and having an original maturity at issue in excess of 365 days or any loan disbursed to the Issuer as a borrower under a loan participation note or similar transaction and (ii) any guarantee or indemnity of any such indebtedness.

5. COVENANTS

5.1 Maintenance of Authorisations

So long as any of the Notes remains outstanding (as defined in the Agency Agreement), the Issuer shall take all necessary actions to maintain, obtain and promptly renew, and do or cause to be done all things reasonably necessary to ensure the continuance of, all consents, permissions, licences, approvals and authorisations, and make or cause to be made all registrations, recordings and filings, which may at any time be required to be obtained or made in the Republic of Turkey (including, for the avoidance of doubt, with the Capital Markets Board (in Turkish: *Sermaye Piyasası Kurulu*) (the “**CMB**”) and the Banking Regulatory and Supervisory Authority (in Turkish: *Bankacılık Düzenleme ve Denetleme Kurumu*) (the “**BRSA**”)) for (i) the execution, delivery or performance of the Agency Agreement, the Deed of Covenant and the Notes or for the validity or enforceability thereof, or (ii) the conduct by it of the Permitted Business, save for any consents, permissions, licences, approvals, authorisations, registrations, recordings and filings (collectively, “**Permissions**”) which are immaterial in the conduct by the Issuer of the Permitted Business. For the avoidance of doubt, any Permissions relating to the Issuer’s ability or capacity to undertake its banking or financial advisory functions shall not be deemed to be immaterial in the conduct by the Issuer of its Permitted Business.

5.2 Transactions with Affiliates

The Issuer shall not, and shall not permit any of its Subsidiaries to, in any twelve month period, make any payment to, or sell, lease, transfer or otherwise dispose of any of its properties, revenues or assets to, or purchase any properties, revenues or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance, indemnity or guarantee (whether related or not) which has or in the aggregate have a value in excess of USD 50,000,000 with or for the benefit of, any Affiliate (each, an “**Affiliate Transaction**”) unless such Affiliate Transaction is on terms that are no less favourable to the Issuer or the relevant Subsidiary than those that would have been obtained in a comparable transaction by the Issuer or such Subsidiary with an unrelated Person (as defined in the Agency Agreement).

5.3 Financial Reporting

So long as the Notes remain outstanding (as defined in the Agency Agreement), the Issuer shall deliver to the Fiscal Agent for distribution to a holder upon any holder’s written request:

- (a) not later than 120 days after the end of the Issuer’s financial year, English language copies of the Issuer’s audited consolidated financial statements for such financial year, prepared in accordance with IFRS consistently applied, together with the corresponding financial statements for the preceding period, and all such annual financial statements of the Issuer shall be accompanied by the report of the auditors thereon; and
- (b) not later than 90 days after the end of the first six months of each of the Issuer’s financial years, English language copies of its unaudited consolidated financial statements for such six-month period, prepared in accordance with IFRS consistently applied, together with the corresponding financial statements for the preceding period.

For the purposes of this Condition 5:

“**Affiliate**” in respect of any specified Person, means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person, and, in the case of a natural Person, any immediate family member of such Person. For purposes of this definition, “**control**”, as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise. For purposes of this definition, the terms “**controlling**”, “**controlled by**” and “**under common control with**” shall have correlative meanings.

“**Permitted Business**” means any business which is the same as or related, ancillary or complementary to any of the businesses of the Issuer on the Issue Date (as defined below).

6. INTEREST

6.1 Interest Rate and Interest Payment Dates

The Notes bear interest from and including 8 February 2012 (the “**Issue Date**”) at the rate of 6.75 per cent. per annum, payable semi-annually in arrear on 8 February and 8 August (each an “**Interest Payment Date**”) of each year and amounting to USD 33.75 per USD 1,000 principal amount of Note to be paid on each Interest Payment Date. The first payment (for the period from and including 8 February 2012 to but excluding 8 August 2012 and amounting to USD 33.75 per USD 1,000 principal amount of Note to) shall be made on 8 August 2012.

6.2 Interest Accrual

Each Note will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment. In such event, interest will continue to accrue until whichever is the earlier of:

- (a) the date on which all amounts due in respect of such Note have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Notes has been received by the Fiscal Agent or the Registrar, as the case may be, and notice to that effect has been given to the Noteholders in accordance with Condition 13.

6.3 Calculation of Broken Interest

When interest is required to be calculated in respect of a period of less than a full six-month interest period, it shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

7. PAYMENTS

7.1 Payments in respect of Notes

Payment of principal and interest on a Note will be made by transfer to the registered account of the applicable Noteholder or by U.S. Dollar cheque drawn on a bank that processes payments in U.S. Dollars mailed to the registered address of such Noteholder if it does not have a registered account. Payments of principal and payments of interest due otherwise than on an Interest Payment Date will only be made against surrender of the relevant Certificate at the specified office of any of the Agents. Interest on Notes due on an Interest Payment Date will be paid to the holder shown on the register of Noteholders at the close of business on the date (the “**record date**”) being the fifteenth day before the due date for the payment of interest, and if such fifteenth day is not a Business Day, the Business Day immediately prior.

For the purposes of this Condition, a Noteholder’s registered account means the U.S. Dollar account maintained by or on behalf of it with a bank that processes payments in U.S. Dollars, details of which appear on the register of Noteholders at the close of business, in the case of principal, on the second Business Day (as defined below) before the due date for payment and, in the case of interest, on the relevant record date, and a Noteholder’s registered address means its address appearing on the register of Noteholders at that time.

7.2 Payments subject to Applicable Laws

Payments in respect of principal and interest on the Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 9.

7.3 No commissions

No commissions or expenses shall be charged to the Noteholders in respect of any payments made in accordance with this Condition.

7.4 Payment on Business Days

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Business Day (as defined below), for value the first following day which is a Business Day; *it being understood* that no additional interest or other amount will accrue on any such payment) will be initiated and, where payment is to be made by cheque, the cheque will be mailed, on the Business Day preceding the due date for payment or, in the case of a payment of principal or a payment of interest due otherwise than on an Interest Payment Date, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of an Agent.

A Noteholder will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day, if the Noteholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

In this Condition “**Business Day**” means a day (other than a Saturday or Sunday) on which commercial banks are open for business in New York City, London and Istanbul and, in the case of presentation of a Certificate, in the place in which the Certificate is presented.

7.5 Partial Payments

If the amount of principal or interest which is due on the Notes is not paid in full, the Registrar will annotate the register of Noteholders with a record of the amount of principal or interest in fact paid.

7.6 Agents

The names of the initial Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that:

- (a) there will at all times be a Fiscal Agent;
- (b) there will at all times be an Agent (which may be the Fiscal Agent) having a specified office in a city which, for so long as the Notes are admitted to official listing on the London Stock Exchange, shall be such place as the UK Listing Authority may approve;
- (c) the Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive;
- (d) there will at all times be a Paying Agent in a jurisdiction, other than the jurisdiction in which the Issuer is incorporated; and
- (e) there will at all times be a Registrar.

Notice of any termination or appointment and of any changes to the specified office of an Agent will be given to the Noteholders promptly by the Issuer in accordance with Condition 13.

8. REDEMPTION AND PURCHASE

8.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 8 February 2017.

8.2 Redemption for Taxation Reasons

If:

- (a) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 9), or any change or clarification in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after 8 February 2012, on the next Interest Payment Date:
 - (i) the Issuer would be required to pay additional amounts as provided or referred to in Condition 9; and
 - (ii) the Issuer would be required to make any withholding or deduction for, or on account of, any Taxes imposed or levied by or on behalf of the Relevant Jurisdiction, beyond the prevailing applicable rates on the Issue Date; and
- (b) the requirement cannot be avoided by the Issuer taking reasonable measures available to it, the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 13 (which notice shall be irrevocable), redeem all the Notes, but not some only, at any time at their principal amount together with interest accrued to but excluding the date of redemption. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Fiscal Agent a certificate signed by two Directors of the Issuer stating that the requirement referred to in subparagraph (a) above will apply on the next Interest Payment Date and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and an opinion of independent tax advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of the change or amendment.

8.3 Purchases

The Issuer or any of its Subsidiaries (as defined below) may at any time purchase Notes in any manner and at any price. Such Notes may be held, re-issued, resold or, at the option of the Issuer, surrendered to any Paying Agent or the Registrar for cancellation.

8.4 Notices Final

Upon the expiry of any notice as is referred to in Condition 8.2 above the Issuer shall be bound to redeem the Notes to which the notice refers in accordance with the terms of such paragraph.

9. TAXATION

9.1 Payment without Withholding

All payments in respect of the Notes by or on behalf of the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (“**Taxes**”) imposed or levied by or on behalf of any Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note:

- (a) presented for payment by or on behalf of a holder who is liable to the Taxes in respect of the Note by reason of his having some connection with any Relevant Jurisdiction other than the mere holding of the Note; or
- (b) presented for payment in the Republic of Turkey; or
- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union; or
- (e) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming that day to have been a Business Day (as defined in Condition 7).

9.2 Interpretation

In these Conditions:

- (a) “**Relevant Date**” means, with respect to any payment, the date on which such payment first becomes due but, if the full amount of the money payable has not been received by the Fiscal Agent on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 13; and
- (b) “**Relevant Jurisdiction**” means the Republic of Turkey or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of principal and interest on the Notes.

9.3 Additional Amounts

Any reference in these Conditions to any amounts in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition 9.

10. PRESCRIPTION

Claims in respect of principal and interest will become prescribed unless made within 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date, as defined in Condition 9.

11. EVENTS OF DEFAULT

11.1 Events of Default

The holder of any Note may give notice to the Issuer (with a copy to the Fiscal Agent) that the Note is, and it shall accordingly forthwith become, immediately due and repayable at its principal amount, together with interest accrued to the date of repayment, if any of the following events (“**Events of Default**”) shall have occurred and be continuing:

- (a) if default is made in the payment of any principal or interest due in respect of the Notes or any of them and the default continues for a period of 14 days in the case of principal or seven days in the case of interest; or
- (b) if the Issuer fails to perform or observe any of its other obligations under these Conditions and (except in any case where the failure is incapable of remedy, when no continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 14 days following the service by any Noteholder on the Issuer of notice requiring the same to be remedied; or
- (c) if (i) any Indebtedness for Borrowed Money (as defined below) of the Issuer or any of its Material Subsidiaries becomes due and repayable prematurely by reason of an event of default (however described); (ii) the Issuer or any of its Material Subsidiaries fails to make any payment in respect of any Indebtedness for Borrowed Money on the due date for payment, subject to any applicable grace period; (iii) any security given by the Issuer or any of its Material Subsidiaries for any Indebtedness for Borrowed Money becomes enforceable; or (iv) default is made by the Issuer or any of its Material Subsidiaries in making any payment due under any guarantee and/or indemnity given by it in relation to any Indebtedness for Borrowed Money of any other person, subject to any applicable grace period; or
- (d) if:
 - (i) any order is made by any competent court or resolution is passed for the winding up or dissolution of the Issuer or any of its Material Subsidiaries; or
 - (ii) the Issuer or any of its Material Subsidiaries ceases or threatens to cease to carry on the whole or a substantial part of its business, save as provided below, and save for the purposes of reorganisation on terms approved by an Extraordinary Resolution of Noteholders, or the Issuer or any of its Material Subsidiaries stops or threatens to stop payment of, or is unable to, or admits inability to, pay its debts (or any class of its debts) as they fall due or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found by a competent authority to be (or becomes) bankrupt or insolvent; or
 - (iii) the Issuer or any of its Material Subsidiaries commences negotiations with one or more of its creditors with a view to the general readjustment or rescheduling of all or a substantial part of its indebtedness; or
 - (iv) the Issuer or any of its Material Subsidiaries (I) takes any corporate action or other steps are taken or legal proceedings are started (x) for its winding-up, dissolution, administration, bankruptcy or re-organisation (other than for the purposes of and followed by a reconstruction whilst solvent upon terms previously approved by an Extraordinary Resolution of Noteholders), or (y) for the appointment of a liquidator, receiver, administrator, administrative receiver, trustee or similar officer of it or any substantial part or all of its revenues and assets or (II) it shall or proposes to make a general assignment for the benefit of its creditors, or shall enter into any composition with its creditors,

in each case in (i) to (iv) above, save for the solvent voluntary winding-up, dissolution or re-organisation of any Material Subsidiary in connection with any combination with, or transfer of all or substantially all of its business and/or assets to, the Issuer or another Subsidiary of the Issuer; or
- (e) if the banking licence of the Issuer is temporarily or permanently revoked or the Issuer is transferred to the Savings and Deposit Insurance Fund under the provisions of the Banking Law (Law No. 5411) of Turkey.

11.2 Interpretation

For the purposes of these Conditions:

“Indebtedness for Borrowed Money” means any indebtedness (whether being principal, premium, interest or other amounts) for or in respect of:

- (i) any notes, bonds, debentures, debenture stock, loan stock or other securities; or
- (ii) any borrowed money; or

(iii) any liability under or in respect of any acceptance or acceptance credit,

the aggregate principal amount of which exceeds USD 50,000,000 (or its equivalent in any other currency or currencies).

“Material Subsidiary” means at any time a Subsidiary of the Issuer:

- (a) whose total assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated IFRS financial statements of the Issuer relate, are equal to) not less than 10 per cent. of the consolidated total assets of the Issuer, all as calculated respectively by reference to the then latest audited IFRS financial statements (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited consolidated accounts of the Issuer, PROVIDED THAT:
 - (i) if the then latest audited consolidated accounts of the Issuer show negative assets at the end of the relevant financial period, the financial statements shall be read as if words “net assets” were substituted by the words “total assets”, for the purposes of this definition; and
 - (ii) in the case of a Subsidiary of the Issuer acquired after the end of the financial period to which the then latest audited consolidated IFRS financial statements of the Issuer relate, the reference to the then latest audited consolidated IFRS financial statements of the Issuer for the purposes of the calculation above shall, until consolidated accounts for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first-mentioned accounts as if such Subsidiary had been shown in such accounts by reference to its then latest relevant audited accounts, adjusted as deemed appropriate by the Issuer;
- (b) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Issuer which immediately prior to such transfer is a Material Subsidiary, provided that the transferor Subsidiary shall upon such transfer forthwith cease to be a Material Subsidiary and the transferee Subsidiary shall immediately become a Material Subsidiary pursuant to this subparagraph (b) but shall cease to be a Material Subsidiary on the date of publication of its next audited IFRS financial statements unless it would then be a Material Subsidiary under subparagraph (a) above; or
- (c) to which is transferred an undertaking or assets which, taken together with the undertaking or assets of the transferee Subsidiary, represented (or, in the case of the transferee Subsidiary being acquired after the end of the financial period to which the then latest audited consolidated IFRS financial statements of the Issuer relate, represent) not less than 15 per cent. of the consolidated total assets of the Issuer taken as a whole (calculated as set out in subparagraph (a) above), provided that the transferor Subsidiary (if a Material Subsidiary) shall upon such transfer forthwith cease to be a Material Subsidiary unless immediately following such transfer, its assets represent not less than 15 per cent. of the consolidated total assets of the Issuer (calculated as set out in subparagraph (a) above), and the transferee Subsidiary shall cease to be a Material Subsidiary pursuant to this subparagraph (c) on the date of the publication of its next audited IFRS financial statements, save that such transferor Subsidiary or such transferee Subsidiary may be a Material Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (a) above or, prior to or after such date, by virtue of any other applicable provision of this definition.

A report by the auditors of the Issuer that in their opinion a Subsidiary is or is not or was or was not at any particular time a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties.

“Subsidiary” means, in relation to the Issuer, any company (i) in which the Issuer holds a majority of the voting rights or (ii) of which the Issuer is a member and has the right to appoint or remove a majority of the board of directors or (iii) of which the Issuer is a member and controls a majority of the voting rights, and includes any company which is a Subsidiary of a Subsidiary of the Issuer.

12. REPLACEMENT OF CERTIFICATES

If any Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to (i) evidence of such theft, loss, mutilation, defacement or destruction, and (ii) indemnity as the Issuer may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

13. NOTICES

Notices to the Noteholders

All notices to the Noteholders will be valid if mailed to them at their respective addresses in the register of Noteholders maintained by the Registrar. The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed. Any notice shall be deemed to have been given on the day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

14. MEETINGS OF NOTEHOLDERS AND MODIFICATION

14.1 Meetings of Noteholders

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of any of these Conditions or any of the provisions of the Agency Agreement. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. in principal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons present whatever the principal amount of the Notes held or represented by him or them, except that at any meeting the business of which includes the modification of certain of these Conditions the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, of the principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting.

14.2 Modification

The Fiscal Agent and the Issuer may agree, without the consent of the Noteholders, to any modification of any of these Conditions or any of the provisions of the Agency Agreement which (i) in the opinion of the Issuer is for the purpose of curing any ambiguity or of curing, correcting or supplementing any manifest or proven error or any other defective provision contained herein or therein or (ii) in the opinion of the Issuer (following the advice of an independent financial institution of international standing) is not materially prejudicial to the interests of the Noteholders. Any such modification shall be binding on the Noteholders and, unless the Fiscal Agent agrees otherwise, any modification shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 13.

15. FURTHER ISSUES

The Issuer may from time to time without the consent of the Noteholders create and issue further notes, having terms and conditions the same as those of the Notes, or the same except for the amount of the first payment of interest, which may be consolidated and form a single series with the outstanding Notes, provided, however, that such further notes will be fungible for U.S. federal income tax purposes.

16. GOVERNING LAW AND SUBMISSION TO JURISDICTION

16.1 Governing Law

The Agency Agreement, the Deed of Covenant and the Notes are, and any non-contractual obligations arising therefrom will be, governed by and construed in accordance with English law.

16.2 Jurisdiction of English courts

The Issuer has irrevocably agreed for the benefit of the Noteholders that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Notes and accordingly has submitted to the exclusive jurisdiction of the English courts. The Issuer has waived any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum.

The Noteholders may take any suit, action or proceeding arising out of or in connection with the Notes (together referred to as “**Proceedings**”) against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

16.3 Consent to Enforcement

The Issuer agrees, without prejudice to the enforcement of a judgment obtained in the English courts according to the provisions of Article 54 of the International Private and Procedural Law of Turkey (Law No. 5718), that in the event that any action is brought in relation to the Issuer in a court in Turkey in connection with the Notes, in addition to other permissible legal evidence pursuant to the Civil Procedure Code of Turkey (Law No. 6100) any judgment obtained in the courts of England in connection with such action shall constitute conclusive evidence of the existence and amount of the claim against the Issuer, pursuant to the provisions of the first sentence of Article 193 of the Civil Procedure Code of Turkey (Law No. 6100) and Articles 58 and 59 of the International Private and Procedural Law of Turkey (Law No. 5718).

16.4 Appointment of Process Agent

In connection with the issuance of the Notes, service of process may be made upon the Issuer at the offices of UniCredit Bank AG, London Branch located at Moor House, 120 London Wall, London EC2Y 5ET, United Kingdom, in respect of any Proceedings in England and undertakes that in the event of such process agent ceasing so to act it will appoint another person as its agent for that purpose.

16.5 Other Documents

The Issuer has in the Agency Agreement and the Deed of Covenant submitted to the jurisdiction of the English courts and appointed an agent in England for service of process, in terms substantially similar to those set out above.

17. RIGHTS OF THIRD PARTIES

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

THE GLOBAL CERTIFICATES

The Global Certificates contain the following provisions which apply to the Notes in respect of which they are issued whilst they are represented by the Global Certificates, some of which modify the effect of the Conditions. Terms defined in the Conditions of the Notes have the same meaning in paragraphs 1 to 6 below.

1. ACCOUNTHOLDERS

For so long as any of the Notes are represented by the Global Certificates, each person (other than another clearing system) who is for the time being shown in the records of DTC or Euroclear or Clearstream, Luxembourg (as the case may be) as the holder of a particular aggregate principal amount of such Notes (each an “**Accountholder**”) (in which regard any certificate or other document issued by DTC or Euroclear or Clearstream, Luxembourg (as the case may be) as to the aggregate principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such aggregate principal amount of such Notes (and the expression “**Noteholders**” and references to “**holding of Notes**” or purchase or other acquisition of Notes and to “**holder of Notes**” shall be construed accordingly) for all purposes other than with respect to payments on such Notes, the right to which shall be vested, as against the Issuer, solely in the nominee for the relevant clearing system (the “**Relevant Nominee**”) in accordance with and subject to the terms of the Global Certificates. Each Accountholder must look solely to DTC or Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Relevant Nominee.

2. CANCELLATION

Cancellation of any Note following its redemption or purchase by the Issuer or any of its Subsidiaries will be effected by reduction in the aggregate principal amount of the Notes in the register of Noteholders and by the annotation of the appropriate schedule to the relevant Global Certificate.

3. PAYMENTS

Payments of principal in respect of Notes represented by a Global Certificate will be made upon presentation or, if no further payment falls to be made in respect of the Notes, against presentation and surrender of such Global Certificate to or to the order of the Fiscal Agent or such other Agent as shall have been notified to the holders of the Global Certificates for such purpose.

Distributions of amounts with respect to book-entry interests in the Unrestricted Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Fiscal Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system’s rules and procedures.

Holders of book-entry interests in the Restricted Notes holding through DTC will receive, to the extent received by the Fiscal Agent, all distribution of amounts with respect to book-entry interests in such Notes from the Fiscal Agent through DTC. Distributions in the United States will be subject to relevant U.S. tax laws and regulations.

A record of each payment made will be endorsed on the appropriate schedule to the relevant Global Certificate by or on behalf of the Fiscal Agent and shall be prima facie evidence that payment has been made.

4. NOTICES

So long as the Notes are represented by a Global Certificate and such Global Certificate is held on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled Accountholders in substitution for notification as required by Condition 13. Any such notice shall be deemed to have been given to the Noteholders on the day after the day on which such notice is delivered to such clearing system.

5. REGISTRATION OF TITLE

Registration of title to Notes in a name other than that of the Relevant Nominee will not be permitted unless Euroclear or Clearstream, Luxembourg or DTC, as appropriate, notifies the Issuer that it is unwilling or unable to continue as a clearing system in connection with a Global Certificate or, in the case of DTC only, DTC ceases to be a clearing agency registered under the U.S. Securities Exchange Act of 1934, and in each case a successor clearing system is not appointed by the Issuer within 90 days after receiving such notice from Euroclear, Clearstream, Luxembourg or DTC or becoming aware that DTC is no longer so registered. In these circumstances title to a Note may be transferred into the names of holders notified by the Relevant Nominee in accordance with the Conditions, except that Certificates in respect of Notes so transferred may not be available until 21 days after the request for transfer is duly made.

The Registrar will not register title to the Notes in a name other than that of the Relevant Nominee for a period of 15 calendar days preceding the due date for any payment of principal or interest in respect of the Notes.

If only one of the Global Certificates (the “**Exchanged Global Certificate**”) becomes exchangeable for Certificates in accordance with the above paragraphs, transfers of Notes may not take place between, on the one hand, persons holding Certificates issued in exchange for beneficial interests in the Exchanged Global Certificate and, on the other hand, persons wishing to purchase beneficial interests in the other Global Certificate.

6. TRANSFERS

Transfers of book-entry interests in the Notes will be effected through the records of Euroclear, Clearstream, Luxembourg and DTC and their respective participants in accordance with the rules and procedures of Euroclear, Clearstream, Luxembourg and DTC and their respective direct and indirect participants, as more fully described under “*Clearing and Settlement Procedures*”.

BOOK-ENTRY CLEARANCE SYSTEMS

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of each of DTC, Euroclear or Clearstream, Luxembourg (together, the “**Clearing Systems**”) currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believes to be reliable, but none of the Issuer nor any Joint Lead Manager takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of such facilities.

None of the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of the Clearing Systems or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Book-Entry Systems

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

DTC

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a “banking organisation” within the meaning of the New York Banking Law, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants deposit with DTC. DTC also facilitates the settlement among its participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in participants’ accounts. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly.

Registration and Form

Book-entry interests in the Notes held through Euroclear and Clearstream, Luxembourg will be represented by the Unrestricted Global Certificate registered in the name of a nominee of, and held by, a common depository for Euroclear and Clearstream, Luxembourg. Book-entry interests in the Notes held through DTC will be represented by the Restricted Global Certificate registered in the name of Cede & Co., as nominee for DTC, and held by a custodian for DTC. As necessary, the Registrar will adjust the amounts of Notes on the Register for the accounts of Euroclear, Clearstream, Luxembourg and DTC to reflect the amounts of Notes held through Euroclear, Clearstream, Luxembourg and DTC, respectively. Beneficial ownership of book-entry interests in Notes will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.

The aggregate holdings of book-entry interests in the Notes in Euroclear, Clearstream, Luxembourg and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream, Luxembourg or DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interests in the Notes will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry

interests in the Notes. The Registrar will be responsible for maintaining a record of the aggregate holdings of Notes registered in the name of a common nominee for Euroclear and Clearstream, Luxembourg, a nominee for DTC and/or, if individual Certificates are issued in the limited circumstances described under “*The Global Certificates – Registration of Title*”, holders of Notes represented by those individual Certificates. The Principal Paying Agent will be responsible for ensuring that payments received by it from the Issuer for holders of book-entry interests in the Notes holding through Euroclear and Clearstream, Luxembourg are credited to Euroclear or Clearstream, Luxembourg, as the case may be, and the Fiscal Agent will also be responsible for ensuring that payments received by the Fiscal Agent from the Issuer for holders of book-entry interests in the Notes holding through DTC are credited to DTC.

The Issuer will not impose any fees in respect of holding the Notes; however, holders of book-entry interests in the Notes may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream, Luxembourg or DTC.

Clearing and Settlement Procedures

Initial Settlement

Upon their original issue, the Notes will be in global form represented by the two Global Certificates. Interests in the Notes will be in uncertified book-entry form. Purchasers electing to hold book-entry interests in the Notes through Euroclear and Clearstream, Luxembourg accounts will follow the settlement procedures applicable to conventional Eurobonds. Book-entry interests in the Notes will be credited to Euroclear and Clearstream, Luxembourg participants’ securities clearance accounts on the business day following the Closing Date against payment (value the Closing Date). DTC participants acting on behalf of purchasers electing to hold book-entry interests in the Notes through DTC will follow the delivery practices applicable to securities eligible for DTC’s Same Day Funds Settlement system. DTC participants’ securities accounts will be credited with book-entry interests in the Notes following confirmation of receipt of payment to the Issuer on the Closing Date.

Secondary Market Trading

Secondary market trades in the Notes will be settled by transfer of title to book-entry interests in the Clearing Systems. Title to such book-entry interests will pass by registration of the transfer within the records of Euroclear, Clearstream, Luxembourg or DTC, as the case may be, in accordance with their respective procedures. Book-entry interests in the Notes may be transferred within Euroclear and within Clearstream, Luxembourg and between Euroclear and Clearstream, Luxembourg in accordance with procedures established for these purposes by Euroclear and Clearstream, Luxembourg. Book-entry interests in the Notes may be transferred within DTC in accordance with procedures established for this purpose by DTC. Transfer of book-entry interests in the Notes between Euroclear or Clearstream, Luxembourg and DTC may be effected in accordance with procedures established for this purpose by Euroclear, Clearstream, Luxembourg and DTC.

General

None of Euroclear, Clearstream, Luxembourg or DTC is under any obligation to perform or continue to perform the procedures referred to above, and such procedures may be discontinued at any time.

None of the Issuer, the Principal Paying Agent or any of their agents will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations or the arrangements referred to above.

TAXATION

This is a general summary of certain United States Federal, United Kingdom and Turkish income tax considerations in connection with an investment in the Notes. This summary does not address all aspects of United States Federal, United Kingdom and Turkish income tax laws and does not discuss any state or local tax considerations. While this summary is considered to be a correct interpretation of existing laws in force on the date of this Offering Memorandum, there can be no assurance that those laws or the interpretation of those laws will not change. This summary does not discuss all of the income tax consequences that may be relevant to an investor in light of such investor's particular circumstances or to investors subject to special rules, such as regulated investment companies, certain financial institutions or insurance companies. **Prospective investors are advised to consult their tax advisers with respect to the tax consequences of the purchase, ownership or disposition of the Notes (or the purchase, ownership or disposition of beneficial interests therein) as well as any tax consequences that may arise under the laws of any state, municipality or other taxing jurisdiction.**

Certain U.S. Federal Income Tax Consequences

Notice pursuant to IRS Circular 230

The discussion of U.S. tax matters set forth in this Offering Memorandum was written in connection with the promotion or marketing of this Offering and was not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding tax-related penalties under U.S. Federal, state or local tax law. Each taxpayer should seek advice based upon its particular circumstances from an independent tax adviser.

The following summary describes certain U.S. Federal income tax consequences of the acquisition, ownership and disposition of a Note by a U.S. Holder (as defined below) whose functional currency is the U.S. dollar that acquires the Note in this Offering from the Joint Lead Managers at a price equal to the issue price of the Notes (the first price at which a substantial amount of the Notes is sold for money to investors) and holds it as a capital asset. This summary does not address all aspects of U.S. Federal income taxation that may be applicable to particular U.S. Holders subject to special U.S. Federal income tax rules, including, among others, tax-exempt organisations, financial institutions, dealers and traders in securities or currencies, U.S. Holders that will hold a Note as part of a "straddle," hedging transaction, "conversion transaction" or other integrated transaction for U.S. Federal income tax purposes, U.S. Holders that enter into "constructive sale" transactions with respect to the Notes, U.S. Holders liable for alternative minimum tax and certain U.S. expatriates. In addition this summary does not address consequences to U.S. Holders of the acquisition, ownership and disposition of a Note under any other U.S. Federal tax laws (e.g., Medicare, estate or gift tax laws) or under the tax laws of any state, locality or other political subdivision of the United States or other countries or jurisdictions.

As used herein, the term "**U.S. Holder**" means a beneficial owner of a Note that is for U.S. Federal income tax purposes: (a) an individual who is a citizen or resident of the United States, (b) a corporation created or organised in or under the laws of the United States, any state thereof or the District of Columbia, (c) an estate, the income of which is subject to U.S. Federal income taxation regardless of its source, or (d) a trust that is subject to U.S. tax on its worldwide income regardless of its source.

If an entity or arrangement treated as a partnership for U.S. Federal income tax purposes holds a Note, the U.S. Federal income tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. Therefore, a partnership holding a Note and its partners should consult their own tax advisers regarding the U.S. Federal income tax consequences of the acquisition, ownership and disposition of a Note.

The discussion below is based upon the U.S. Internal Revenue Code of 1986, U.S. Treasury regulations thereunder, and judicial and administrative interpretations thereof, all as in effect as of the date of this Offering Memorandum and any of which may at any time be repealed, revoked or modified or subject to differing interpretations, potentially retroactively, so as to result in U.S. Federal income tax consequences different from those discussed below.

The summary of the U.S. Federal income tax consequences set out below is for general information only. Prospective purchasers should consult their tax advisers as to the particular tax consequences to them of owning the Notes, including the applicability and effect of state, local, foreign and other tax laws and possible changes in tax law.

Payments of interest

Payments of stated interest on the Notes, including additional amounts, if any, generally will be taxable to a U.S. Holder as ordinary income at the time that such payments are received or accrued, in accordance with such U.S. Holder's usual method of accounting for U.S. Federal income tax purposes. Interest paid on a Note and OID (as defined below), if any, accrued with respect to the Notes (as described under "*Original Issue Discount*"), and any additional amounts generally will constitute foreign source income for U.S. Federal income tax purposes and generally will be considered "passive" income, which is treated separately from other types of income in computing the foreign tax credit that may be allowable to U.S. Holders under U.S. Federal income tax laws. Subject to applicable restrictions and limitations, a U.S. Holder may be entitled to claim a U.S. foreign tax credit in respect of any Turkish withholding taxes imposed on interest received on the Notes. A U.S. Holder who does not elect to claim a credit for foreign tax may instead claim a deduction in respect of the tax provided the U.S. Holder elects to deduct rather than claim a credit for all foreign taxes for such taxable year. U.S. Holders that are eligible for benefits under the double tax treaty between the United States and Turkey (the "*Double Tax Treaty*") or are otherwise entitled to a refund for the taxes withheld, under Turkish tax law generally will not be entitled to a foreign tax credit or deduction for the amount of any Turkish taxes withheld in excess of the maximum rate under the Double Tax Treaty or for those taxes that have been otherwise refunded to them under Turkish tax law. The rules relating to foreign tax credits or deducting foreign taxes are extremely complex, and U.S. Holders are urged to consult their own tax advisers regarding the availability and advisability of claiming a foreign tax credit or a deduction with respect to any Turkish taxes withheld from payment.

Original Issue Discount

General

The following is a summary of the principal U.S. Federal income tax consequences of the ownership of Notes issued with original issue discount ("**OID**").

A Note will be treated as issued with OID (a "**Discount Note**") if the excess of the Note's "stated redemption price at maturity" over its issue price is at least a *de minimis* amount (0.25% of the Note's stated redemption price at maturity multiplied by the number of complete years to its maturity from its issue date). Generally, the "issue price" of a Note is the first price at which a substantial amount of such Notes included in the issue of which the Note is a part is sold to persons other than bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents, or wholesalers. The "stated redemption price at maturity" of a Note is the total of all payments provided by the Note that are not payments of "qualified stated interest". Payments of stated interest on the Notes will be qualified stated interest.

U.S. Holders of Discount Notes must generally include OID in income calculated on a constant-yield method before the receipt of cash attributable to the income, and will generally have to include in income increasingly greater amounts of OID over the life of the Discount Notes. The amount of OID includible in income by a U.S. Holder of a Discount Note is the sum of the daily portions of OID with respect to the Discount Note for each day during the taxable year or portion of the taxable year on which the U.S. Holder holds the Discount Note ("**accrued OID**"). The daily portion is determined by allocating to each day in any accrual period a *pro rata* portion of the OID allocable to that accrual period. Accrual periods with respect to a Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Discount Note as long as: (a) no accrual period is longer than one year and (b) each scheduled payment of interest or principal on the Note occurs on either the final or first day of an accrual period. The amount of OID allocable to an accrual period equals the excess of: (i) the product of the Discount Note's adjusted issue price at the beginning of the accrual period and the Discount Note's yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (ii) the sum of the payments of qualified stated interest on the Discount Note allocable to the accrual period. The "**adjusted issue price**" of a Discount Note at the beginning of any accrual period is the issue price of the Note increased by: (x) the amount of accrued OID for each prior accrual period and decreased by (y) the amount of any payments previously made on the Note that were not qualified stated interest payments.

Election to Treat All Interest as Original Issue Discount

A U.S. Holder may elect to include in gross income all interest that accrues on a Note using the constant-yield method described above under “– *Original Issue Discount – General*” with certain modifications. For the purposes of this election, interest includes stated interest, OID, and *de minimis* OID. If a U.S. Holder makes this election for the Note, then, when the constant-yield method is applied, the issue price of the Note will equal its cost, the issue date of the Note will be the date of acquisition, and no payments on the Note will be treated as payments of qualified stated interest. This election will generally apply only to the Note with respect to which it is made and may not be revoked without the consent of the U.S. Internal Revenue Service (“IRS”).

Sale, exchange and redemption of Notes

Upon the sale, exchange, redemption, retirement at maturity or other taxable disposition of a Note, a U.S. Holder generally will recognise taxable gain or loss equal to the difference between the amount realised (i.e., the amount of cash and the fair market value of any property received on the disposition (except to the extent the cash or property received is attributable to accrued and unpaid interest not previously included in income, which is treated like a payment of interest)) and the U.S. Holder’s tax basis in the Note. A U.S. Holder’s tax basis in a Note generally will equal the amount paid for the Note, increased by the amount of any OID included in the U.S. Holder’s income with respect to the Note and the amount, if any, of income attributable to *de minimis* OID included in the U.S. Holder’s income with respect to the Note. Gain or loss recognised by a U.S. Holder on the sale, exchange or other disposition of a Note will be capital gain or loss and will be long-term capital gain or loss if the Note was held by the U.S. Holder for more than one year. Gain or loss realised by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source. The deductibility of capital losses is subject to significant limitations. U.S. Holders should consult their own advisers about the availability of U.S. foreign tax credits or deductions with respect to any Turkish taxes imposed upon a disposition of Notes.

Information reporting and backup withholding

Information returns may be filed with the IRS (unless the U.S. Holder establishes, if requested to do so, that it is an exempt recipient) in connection with payments on the Notes, and the proceeds from the sale, exchange or other disposition of Notes. If information reports are required to be made, a U.S. Holder may be subject to U.S. backup withholding if it fails to provide its taxpayer identification number, or to establish that it is exempt from backup withholding. The amount of any backup withholding imposed on a payment will be allowed as a credit against any U.S. Federal income tax liability of a U.S. Holder and may entitle the U.S. Holder to a refund, provided the required information is timely furnished to the IRS.

U.S. holders should consult their own tax advisers regarding any filing and reporting obligations they may have as a result of their acquisition, ownership or disposition of notes.

Foreign Asset Reporting

Certain U.S. Holders who are individuals are required to report information relating to an interest in the Notes, subject to certain exceptions (including an exception for notes held in accounts maintained by U.S. financial institutions). U.S. Holders are urged to consult their tax advisers regarding their information reporting obligations, if any, with respect to their ownership and disposition of the Notes.

Certain Turkish Tax Considerations

The following discussion is a summary of certain Turkish tax considerations relating to an investment by a person who is a non-resident of Turkey in Notes of a Turkish company issued abroad. The discussion is based upon current law and is for general information only. The discussion below is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, ownership or disposition of the Notes that may be relevant to a decision to make an investment in the Notes. Furthermore, the discussion only relates to the investment by a person where the Notes will not be held in connection with the conduct of a trade or business through a permanent establishment in Turkey. Each investor should consult its own tax advisers concerning the tax considerations applicable to its particular situation. This discussion is based upon laws and relevant interpretations thereof in effect as of the date of this Offering Memorandum, all of which are subject to change, possibly with a retroactive effect. In addition, it does not describe any tax consequences: (a) arising under the laws of any taxing jurisdiction other than Turkey or (b) applicable to a resident

of Turkey or a non-resident with a fixed base or permanent establishment in Turkey through which the Notes are held.

For Turkish tax purposes, a legal entity is a resident of Turkey if its corporate domicile is in Turkey or its effective place of management is in Turkey. A resident legal entity is subject to Turkish taxes on its worldwide income, whereas a non-resident legal entity is only liable to the Turkish taxes for the trading income made through a permanent establishment or a permanent representative, or for the income sourced in Turkey otherwise.

An individual is a resident of Turkey if such individual has established domicile in Turkey or stays in Turkey more than six months in a calendar year. On the other hand, foreign individuals who stay in Turkey for six months or more for a specific job or business or particular purposes that are specified in the Income Tax Law are not treated as a resident of Turkey. A resident individual is liable for Turkish taxes on his/her worldwide income, whereas a non-resident individual is liable for Turkish tax only for the income sourced in Turkey.

Income from capital investment is sourced in Turkey when the principal is invested in Turkey. Capital gain derived from trading income is considered sourced in Turkey when the activity or transaction generating such income is performed or accounted for in Turkey. The term “accounted for” means that a payment is made in Turkey, or if the payment is made abroad, it is recorded in the books in Turkey.

Any withholding tax levied on income derived by a non-resident person is the final tax for the non-resident person and no further declaration is needed. Any other income of a non-resident person sourced in Turkey that has not been subject to withholding tax will be subject to taxation and declaration where exemptions are reserved.

Interest paid on notes (such as the Notes) issued by Turkish entities outside of Turkey is subject to withholding tax. Through a Decree dated 29 December 2010 numbered 2010/1182, the withholding tax rates are set according to the maturity of notes issued abroad as follows:

- 10% withholding tax for notes with a maturity of less than 1 year;
- 7% withholding tax for notes with a maturity of at least 1 year and less than 3 years;
- 3% withholding tax for notes with a maturity of at least 3 years and less than 5 years; and
- 0% withholding tax for notes with a maturity of 5 years and more.

Such withholding tax is the final tax for a non-resident person and no further declaration is required.

In general, capital gains are not taxed through withholding tax and therefore any capital gain sourced in Turkey with respect to the Notes may be subject to declaration. However, pursuant to Temporary Article 67 of the Turkish Income Tax Law, as amended by the Law numbered 6111, special or separate tax returns will not be submitted for capital gains from the notes of a Turkish corporate issued abroad when the income is derived by a non-resident. Therefore, no tax is levied on the non-resident persons on capital gains from such Notes and no declaration is required.

A non-resident holder will not be liable for Turkish estate, inheritance or similar tax with respect to its investment in the Notes, nor will it be liable for any Turkish stamp issue, registration or similar tax or duty relating thereto.

Reduced Withholding Tax Rates

Under current Turkish laws and regulations, interest payments on notes by an issuer to a non-resident holder will be subject to a withholding tax at a rate between 10 % and 0 % in Turkey, as detailed above.

If a double taxation treaty is in effect between Turkey and the country of the holder of the notes (in some cases, for example, pursuant to the treaties with the United Kingdom and the United States, the term “beneficial owner” is used), which provides for the application of a lower withholding tax rate than the current rate to be applied by the corporation, then the lower rate may be applicable. For the application of withholding at a reduced rate that benefits from the provisions of a double tax treaty concluded between Turkey and the relevant jurisdiction where the investor as a beneficial owner of interest is a resident, an original copy of the certificate of residence signed by the competent authority referred to in Article 3 of the Treaty is required to be submitted, together with a translated copy translated by a translation office, to verify that the investor is subject to taxation over its worldwide gains in the relevant jurisdiction on the basis of resident taxpayer status, as a resident of the relevant jurisdiction to the related tax office directly or through banks and intermediary

institutions prior to the application of withholding. In the event the certificate of residence is not delivered prior to the application of withholding tax, then upon the subsequent delivery of the certificate of residence, refunding of the excess tax shall be granted pursuant to the provisions of the relevant double taxation treaty and the Turkish tax legislation.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, member states are required to provide to the tax authorities of another member state details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other member state or to certain limited types of entities established in that other member state. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described herein.

THE ABOVE SUMMARIES ARE NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO THE INVESTMENT IN THE NOTES. PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISERS CONCERNING THE TAX CONSEQUENCES OF THEIR PARTICULAR SITUATIONS. THIS DISCUSSION IS BASED UPON LAWS AND RELEVANT INTERPRETATIONS THEREOF IN EFFECT AS OF THE DATE OF THIS OFFERING MEMORANDUM.

CERTAIN ERISA CONSIDERATIONS

The following description is general in nature, is not intended to be all-inclusive, and is based on the law and practice in force at the date of this document and is subject to any subsequent changes therein. In view of the individual nature of the U.S. Employee Retirement Income Security Act of 1974, as amended (“**ERISA**”), U.S. Internal Revenue Code of 1986, as amended (the “**Code**”), and Similar Law (as defined below) consequences, each potential investor that is a Benefit Plan (as defined below) or any plan subject to Similar Law is advised to consult its own legal adviser with respect to the specific ERISA, Code and Similar Law consequences of investing in the Notes and to make its own independent decision with respect to any such investment. The following is merely a summary and should not be construed as legal advice.

Subject to the following discussion, the Notes may be acquired by pension, profit sharing or other employee benefit plans subject to the provisions of Part 4 of Subtitle B of Title I of ERISA, as well as individual retirement accounts, Keogh plans and other plans covered by Section 4975 of the Code, as well as entities deemed to hold “plan assets” of any of the foregoing under the Plan Asset Regulation Section 3(42) of ERISA (each such entity, a “**Benefit Plan**”). Section 406 of ERISA and Section 4975 of the Code prohibit a Benefit Plan from engaging in certain transactions with persons that are “parties in interest” under ERISA or “disqualified persons” under the Code with respect to such Benefit Plan. A violation of these “prohibited transaction” rules may result in an excise tax or other penalties and liabilities under ERISA and the Code for such persons or the fiduciaries of the Benefit Plan. In addition, Title I of ERISA also requires fiduciaries of a Benefit Plan subject to ERISA to make investments that are prudent, diversified and in accordance with the governing plan documents.

The acquisition, holding or disposition of Notes by or on behalf of a Benefit Plan could be considered to give rise to a prohibited transaction if the Issuer, the Fiscal Agent or any of their respective affiliates is or becomes a party in interest or a disqualified person with respect to such Benefit Plan. Certain exemptions from the prohibited transaction rules could be applicable to the acquisition, holding and disposition of Notes by a Benefit Plan depending on the type and circumstances of the plan fiduciary making the decision to acquire such Notes. Included among these exemptions are: Prohibited Transaction Class Exemption (“**PTCE**”) 96-23, regarding transactions effected by “in-house asset managers;” PTCE 95-60, as modified, regarding investments by insurance company general accounts; PTCE 91-38, as modified, regarding investments by bank collective investment funds; PTCE 90-1, regarding investments by insurance company pooled separate accounts; and PTCE 84-14, as modified, regarding transactions effected by “qualified professional asset managers.” In addition to the class exemptions listed above, there are statutory exemptions under Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code for prohibited transactions between a Benefit Plan and a person or entity that is a party in interest to such Benefit Plan solely by reason of providing services to the Benefit Plan (other than a party in interest that is a fiduciary, or its affiliate, that has or exercises discretionary authority or control or renders investment advice with respect to the assets of the Benefit Plan involved in the transaction), *provided that* there is adequate consideration for the transaction. Even if the conditions specified in one or more of these exemptions are met, the scope of the relief provided by these exemptions might or might not cover all acts that might be construed as prohibited transactions. There can be no assurance that any of these, or any other exemption, will be available with respect to any particular transaction involving the Notes and prospective purchasers that are Benefit Plans should consult with their advisers regarding the applicability of any such exemption.

By acquiring a Note (or a beneficial interest therein), each purchaser and transferee will be deemed to represent and warrant that: (a) either: (i) the funds used for such acquisition do not constitute the assets of any “employee benefit plan” as defined in Section 3(3) of ERISA, that is subject to the provisions of Part 4 of Subtitle B of Title I of ERISA, any plan to which Section 4975 of the Code applies, any entity whose underlying assets include “plan assets” of any of the foregoing under the Plan Asset Regulation, or a governmental, church or non-U.S. plan subject to any Similar Law, or (ii) the acquisition, holding and disposition of such Note (or a beneficial interest therein) does not and will not result in a non-exempt prohibited transaction under ERISA or Section 4975 of the Code (or, in the case of a governmental, church, or non-U.S. plan, a violation of any Similar Laws), and (b) it agrees not to sell or otherwise transfer any interest in the Notes otherwise than to an acquirer or transferee that is deemed to make these same representations, warranties and agreements with respect to its acquisition, holding and disposition of such Notes.

Employee benefit plans that are governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA) and employee benefit plans subject to non-U.S. law are not subject to ERISA's requirements, although they may be subject to provisions under any federal, state, local, non-U.S. or other laws or regulations that are substantially similar to the provisions of Title I of ERISA or Section 4975 of the Code ("**Similar Law**"). Accordingly, assets of such plans may be invested in the Notes without regard to the ERISA considerations discussed above, subject to the provisions of Similar Law.

A FIDUCIARY OF A BENEFIT PLAN CONSIDERING THE PURCHASE OF NOTES (OR A BENEFICIAL INTEREST THEREIN) SHOULD CONSULT ITS LEGAL ADVISERS REGARDING WHETHER THE ASSETS OF THE ISSUER WOULD BE CONSIDERED PLAN ASSETS, THE POSSIBILITY OF EXEMPTIVE RELIEF FROM THE PROHIBITED TRANSACTION RULES, WHETHER THE NOTES WOULD BE AN APPROPRIATE INVESTMENT FOR THE BENEFIT PLAN UNDER ERISA AND THE CODE AND OTHER ISSUES AND THEIR POTENTIAL CONSEQUENCES. A FIDUCIARY OF A PLAN SUBJECT TO SIMILAR LAW CONSIDERING THE ACQUISITION OF NOTES (OR A BENEFICIAL INTEREST THEREIN) SHOULD CONSULT ITS LEGAL ADVISERS REGARDING THE APPLICABILITY OF THE PROVISIONS OF SIMILAR LAW AND WHETHER THE NOTES WOULD BE AN APPROPRIATE INVESTMENT FOR THE PLAN UNDER SIMILAR LAW. THE SALE OF NOTES TO A BENEFIT PLAN OR TO A PLAN SUBJECT TO SIMILAR LAW IS IN NO RESPECT A REPRESENTATION BY THE ISSUER THAT THIS INVESTMENT MEETS ALL THE RELEVANT LEGAL REQUIREMENTS WITH RESPECT TO INVESTMENT BY BENEFIT PLANS OR PLANS SUBJECT TO SIMILAR LAW GENERALLY OR BY ANY PARTICULAR BENEFIT PLAN OR PLAN SUBJECT TO SIMILAR LAW, OR THAT THIS INVESTMENT IS APPROPRIATE FOR BENEFIT PLANS OR PLANS SUBJECT TO SIMILAR LAW GENERALLY OR FOR ANY PARTICULAR BENEFIT PLAN OR PLAN SUBJECT TO SIMILAR LAW.

SUBSCRIPTION AND SALE

The Issuer intends to offer the Notes through the Joint Lead Managers and their broker-dealer affiliates, as applicable, named below. Subject to the terms and conditions stated in a subscription agreement dated on or around 6 February 2012 (the “**Subscription Agreement**”), among the Joint Lead Managers and the Issuer, each of the Joint Lead Managers has severally agreed to purchase, and the Issuer has agreed to sell to each of the Joint Lead Managers, the principal amount of the Notes set forth opposite each Joint Lead Manager’s name below.

Joint Lead Managers	Principal Amount of Notes (U.S. dollars)
J.P. Morgan Securities Ltd.....	166,667,000
Standard Chartered Bank.....	166,667,000
UniCredit Bank AG	166,666,000
TOTAL	500,000,000

The Subscription Agreement provides that the obligations of the Joint Lead Managers to purchase the Notes are subject to approval of legal matters by counsel and to other conditions. The Joint Lead Managers must purchase all the Notes if they purchase any of the Notes. The offering of the Notes by the Joint Lead Managers is subject to receipt and acceptance and subject to the Joint Lead Managers’ right to reject any order in whole or in part.

The Issuer has been informed that the Joint Lead Managers propose to resell the Notes at the offering prices set forth on the cover page of this Offering Memorandum within the United States to persons reasonably believed to be qualified institutional buyers (as defined in Rule 144A) in reliance upon Rule 144A, and to non-U.S. persons outside the United States in reliance upon Regulation S. See “*Transfer Restrictions*”. The prices at which the Notes are offered may be changed at any time without notice.

Selling Restrictions

United States of America

Offers and sales of the Notes in the United States will be made by those Joint Lead Managers or their affiliates that are registered broker-dealers under the United States Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), or in accordance with Rule 15a-6 thereunder.

The Notes have not been registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See “*Transfer Restrictions*”.

Accordingly, until 40 days after the commencement of this offering, an offer or sale of Notes within the United States by a dealer that is not participating in this offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

The Notes will constitute a new class of securities of the Bank with no established trading market. The Bank cannot assure you that the prices at which the Notes will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the Notes will develop and continue after this offering. The Joint Lead Managers have advised the Bank that they currently intend to make a market in the Notes. However, they are not obligated to do so, and they may discontinue any market-making activities with respect to the Notes at any time without notice. Accordingly, the Bank cannot assure you as to the liquidity of or the trading market for the Notes.

In connection with the offering, the Joint Lead Managers may purchase and sell Notes in the open market. These transactions may include over-allotment, syndicate covering transactions and stabilising transactions. Over-allotment involves the sale of Notes in excess of the principal amount of Notes to be purchased by the Joint Lead Managers in this offering, which creates a short position for the Joint

Lead Managers. Covering transactions involve the purchase of the Notes in the open market after the distribution has been completed in order to cover short positions. Stabilising transactions consist of certain bids or purchases of Notes made for the purpose of preventing or retarding a decline in the market price of the Notes while the offering is in progress. Any of these activities may have the effect of preventing or retarding a decline in the market price of the Notes. They may also cause the price of the Notes to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The Joint Lead Managers may conduct these transactions in the over-the-counter market or otherwise. If the Joint Lead Managers commence any of these transactions, they may discontinue them at any time.

The Joint Lead Managers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Joint Lead Managers or their respective affiliates may have performed investment banking and advisory services for the Issuer and its affiliates from time to time for which they may have received customary fees and expenses. The Joint Lead Managers or their respective affiliates may, from time to time, engage in transactions with and perform advisory and other services for the Issuer and its affiliates in the ordinary course of their business.

In the ordinary course of their various business activities, the Joint Lead Managers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Issuer or the Issuer's affiliates. Certain of the Joint Lead Managers or their affiliates that have a lending relationship with the Issuer hedge their credit exposure to the Issuer consistent with their customary risk management policies. These hedging activities could have an adverse affect on the future trading prices of the Notes offered hereby.

The Issuer has agreed to indemnify the several Joint Lead Managers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the Joint Lead Managers may be required to make because of those liabilities.

Turkey

The offering of the Notes will be registered with the CMB only for the purpose of the sale of the Notes outside of Turkey in accordance with Article 15(b) of Decree 32, Banking Regulations, the Capital Markets Law and Articles 6 and 25 of the Communiqué. The Notes (or beneficial interests therein) have to be offered or sold to real persons and legal entities domiciled outside of Turkey in accordance with the BRSA decision dated 6 May 2010 No. 3665 (as notified by the BRSA in its letter to the Turkish Banking Association, dated 10 May 2010 and numbered B.02.1.BDK.0.11.00.00.31.2 9392) and the CMB has authorised the offering of the Notes; *provided that*, following the primary sale of the Notes, no transaction that may be deemed as a sale of the Notes (or beneficial interests therein) in Turkey by way of private placement or public offering may be engaged in. However, pursuant to Article 15(d)(ii) of Decree 32, there is no restriction on the purchase or sale of the Notes (or beneficial interests therein) in secondary markets by residents of Turkey; *provided that* they purchase or sell such Notes (or beneficial interests) in the financial markets outside of Turkey and such sale and purchase is made through banks and/or licenced brokerage institutions authorised pursuant to CMB regulations. The registration certificate relating to the Notes has been obtained from the CMB on 31 January 2012.

United Kingdom

In the United Kingdom, this Offering Memorandum is being distributed only to and is directed only at: (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**Order**”), (b) high net worth bodies corporate falling within Article 49(2) of the Order, and (c) any other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as “**relevant persons**”). Each Joint Lead Manager has represented and agreed that: (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the “**FSMA**”)) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer, and (b) it has complied and will comply with all applicable provisions

of the FSMA in respect of anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

TRANSFER RESTRICTIONS

Because the following restrictions will apply with respect to the Notes, purchasers of the Notes are advised to consult legal counsel prior to making an offer, resale, pledge or transfer of any of the Notes.

According to Article 15(d)(ii) of Decree 32 regarding the Protection of the Value of the Turkish Currency, residents in Turkey shall be free to purchase and sell securities and other capital market instruments traded on financial markets outside of Turkey, and to transfer their purchasing proceeds abroad through banks and the intermediary institutions authorised in accordance with capital market legislation.

The Bank has not registered the Notes under the Securities Act or the laws of any state securities commission and, therefore, the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only (1) to persons reasonably believed to be “**qualified institutional buyers**” (as defined in Rule 144A under the Securities Act), commonly referred to as “**QIBs**”, in compliance with Rule 144A under the Securities Act and (2) to non-U.S. persons outside the United States in compliance with Regulation S under the Securities Act.

If you purchase the Notes, you will be deemed to have acknowledged, represented and agreed with the Joint Lead Managers and the Bank as follows:

- (1) You understand and acknowledge that the Notes have not been registered under the Securities Act or any other applicable securities law and that the Notes are being offered for resale in transactions not requiring registration under the Securities Act or any other securities law, including sales pursuant to Rule 144A under the Securities Act, and, unless so registered, may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the Securities Act or any other applicable securities law, or pursuant to an exemption therefrom or in a transaction not subject thereto, and in each case in compliance with the conditions for transfer set forth in paragraph (4) below.
- (2) You are not an “**affiliate**” (as defined in Rule 144 under the Securities Act) of the Bank and you are not acting on the Bank’s or their behalf and you are either (i) a QIB and are aware that any sale of Notes to you will be made in reliance on Rule 144A and such acquisition will be for your own account or for the account of another QIB or (ii) not a “**U.S. person**” (as defined in Regulation S under the Securities Act) or purchasing for the account or benefit of a U.S. person (other than a distributor) and you are purchasing Notes in an offshore transaction in accordance with Regulation S under the Securities Act.
- (3) You acknowledge that none of the Bank or the Joint Lead Managers, or any person representing the Bank or the Joint Lead Managers, has made any representation to you with respect to the Bank or the offer or sale of any of the Notes, other than the information contained in this Offering Memorandum, which has been delivered to you and upon which you are relying in making your investment decision with respect to the Notes. You acknowledge that the Joint Lead Managers make no representation or warranty as to the accuracy or completeness of this Offering Memorandum. You have had access to such financial and other information concerning the Bank and the Notes as you have deemed necessary in connection with your decision to purchase the Notes, including an opportunity to ask questions of and request information from the Bank and the Joint Lead Managers.
- (4) You are purchasing the Notes for your own account, or for one or more investor accounts for which you are acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the Securities Act. You agree on your own behalf and on behalf of any investor account for which you are purchasing Notes, and each subsequent holder of the Notes by its acceptance thereof will agree, to offer, sell or otherwise transfer such Notes prior to (x), the date which is one year (or such shorter period of time as permitted by Rule 144 under the Securities Act or any successor provision thereunder) after the later of the date of the original issue of the Notes and the last date on which the Bank or any affiliate of the Bank was the owner of such Notes (or any predecessor thereto), or (y), such later date, if any, as may be required by applicable law (the “**Resale Restriction Termination Date**”), only (a) to the Bank, (b) pursuant to a registration

statement which has been declared effective under the Securities Act, (c) for so long as the Notes are eligible for resale pursuant to Rule 144A, to a person you reasonably believe is a QIB that purchases for its own account or for the account of another QIB to whom you give notice that the transfer is being made in reliance on Rule 144A, (d) in an offshore transaction complying with Rule 903 or 904 of Regulation S under the Securities Act, or (e) pursuant to any other available exemption from the registration requirements of the Securities Act, subject in each of the foregoing cases to compliance with any applicable state securities laws. The foregoing restrictions on resale will not apply subsequent to the Resale Restriction Termination Date. You acknowledge that the Bank reserves the right prior to any offer, sale or other transfer of the Notes pursuant to clause (d) or (e) above, to require the delivery of an opinion of counsel, certifications and/or other information satisfactory to the Bank.

Each purchaser acknowledges that each Rule 144A Note will contain a legend substantially in the following form:

THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR OTHER SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION UNLESS THE TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

THE HOLDER OF THIS SECURITY BY ITS ACCEPTANCE HEREOF (1) REPRESENTS THAT IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT), (2) AGREES ON ITS OWN BEHALF AND ON BEHALF OF ANY INVESTOR ACCOUNT FOR WHICH IT HAS PURCHASED SECURITIES THAT IT WILL NOT PRIOR TO (X), THE DATE WHICH IS ONE YEAR (OR SUCH SHORTER PERIOD OF TIME AS PERMITTED BY RULE 144 UNDER THE SECURITIES ACT OR ANY SUCCESSOR PROVISION THEREUNDER) AFTER THE LATER OF THE ORIGINAL ISSUE DATE THEREOF (OR OF ANY PREDECESSOR OF THIS NOTE) OR THE LAST DAY ON WHICH THE ISSUER OR ANY AFFILIATE (AS DEFINED IN RULE 144) OF THE ISSUER WAS THE OWNER OF THIS NOTE (OR ANY PREDECESSOR OF THIS NOTE), OR (Y), SUCH LATER DATE, IF ANY, AS MAY BE REQUIRED BY APPLICABLE LAW (THE “RESALE RESTRICTION TERMINATION DATE”), OFFER, SELL OR OTHERWISE TRANSFER SUCH NOTE EXCEPT (A) TO THE ISSUER, (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT, TO A PERSON IT REASONABLY BELIEVES IS A “QUALIFIED INSTITUTIONAL BUYER” AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT, (D) PURSUANT TO OFFERS AND SALES TO NON-U.S. PERSONS THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT OR (E) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND, IN EACH CASE, IN COMPLIANCE WITH THE RELEVANT SECURITIES LAWS OF ANY OTHER JURISDICTION, AND (3) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS NOTICE IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND; *PROVIDED THAT* THE ISSUER AND THE ISSUING AND PAYING AGENT SHALL HAVE THE RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (D) OR (E) ABOVE, TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATIONS AND/OR OTHER INFORMATION REASONABLY SATISFACTORY TO THE ISSUER AND THE ISSUING AND PAYING AGENT. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE. AS USED HEREIN, THE TERMS “OFFSHORE TRANSACTION,” “UNITED STATES” AND “U.S. PERSON” HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT.

- (5) If you are a purchaser in a sale that occurs outside the United States within the meaning of Regulation S, you acknowledge that until the expiration of the “40-day distribution compliance period” within the meaning of Rule 903 of Regulation S, any offer or sale of the Notes shall not be made by you to a U.S. person or for the account or benefit of a U.S. person within the meaning of Rule 902 under the Securities Act.
- (6) If you purchase the Notes, you will also be deemed to acknowledge that the foregoing restrictions apply to holders of beneficial interests in the Notes as well as to holders of the Notes.
- (7) You acknowledge that the registrar will not be required to accept for registration of transfer any Notes acquired by you, except upon presentation of evidence satisfactory to the Bank and the registrar that the restrictions set forth herein have been complied with.
- (8) You acknowledge that:
 - (a) the Bank, the Joint Lead Managers and others will rely upon the truth and accuracy of your acknowledgements, representations and agreements set forth herein and you agree that if any of your acknowledgements, representations or agreements herein cease to be accurate and complete, you will notify the Bank and the Joint Lead Managers promptly in writing; and
 - (b) if you are acquiring any Notes as fiduciary or agent for one or more investor accounts, you represent with respect to each such account that:
 - (i) you have sole investment discretion; and
 - (ii) you have full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account and that each such investment account is eligible to purchase the Notes.
- (9) You agree that you will give to each person to whom you transfer the Notes notice of any restrictions on the transfer of the Notes.
- (10) You understand that no action has been taken in any jurisdiction (including the United States) by the Bank or the Joint Lead Managers that would permit a public offering of the Notes or the possession, circulation or distribution of this Offering Memorandum or any other material relating to the Bank or the Notes in any jurisdiction where action for that purpose is required. Consequently, any transfer of the Notes will be subject to the selling restrictions set forth under “*Transfer Restrictions*” and “*Subscription and Sale – Selling Restrictions*”.

Each purchaser and subsequent transferee of a Note (or a beneficial interest therein) will be deemed to have represented and warranted that (a) either (i) no portion of the assets used by such purchaser or transferee to acquire and hold the Notes (or beneficial interests therein) constitutes assets of any employee benefit plan subject to Title I of ERISA, any plan, individual retirement account or other arrangement subject to section 4975 of the Code or provisions under any Similar Law, or any entity whose underlying assets are considered to include “plan assets” of any such plan, account or arrangement or (ii) the acquisition, holding and disposition of the Notes (or beneficial interests therein) by such purchaser or transferee will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a violation under any applicable Similar Law, and (b) such purchaser or transferee agrees not to sell or otherwise transfer any interest in the Notes otherwise than to an acquirer or transferee that is deemed to make these same representations, warranties and agreements with respect to its acquisition, holding and disposition of such Notes.

GENERAL INFORMATION

The Bank is registered at the Istanbul Trade Registry under number 32736. It has its principal office at Yapı Kredi Plaza, D Blok, Levent 34330 Istanbul, Republic of Turkey. Its telephone number is +90 212 339 7011.

Authorisation

The issuance and sale of the Notes by the Issuer and the execution and delivery by the Issuer of the documents in relation thereto have been authorised pursuant to the authority of the officers of the Issuer under resolution of its Board of Directors dated 29 June 2011.

Listing

Application has been made to the UK Listing Authority for the Notes to be admitted to listing on the Official List and to the London Stock Exchange for the Notes to be admitted to trading on the London Stock Exchange's Regulated Market. It is expected that admission to the Official List and trading on the London Stock Exchange's Regulated Market will be granted on or about 8 February 2012, subject only to the issue of the Notes. Prior to official listing, dealings will be permitted by the London Stock Exchange in accordance with its rules.

Clearing Systems

The Unrestricted Global Certificate has been accepted for clearance through Euroclear and Clearstream, Luxembourg (ISIN XS0615235701 and Common Code 061523570). Application has been made for acceptance of the Restricted Global Certificate into DTC's book-entry settlement system (ISIN US984848AA90, Common Code 061917381 and CUSIP 984848AA9).

Significant or Material Adverse Change

There has been no material adverse change in the prospects of the Issuer since 31 December 2010, being the end of the last financial period for which the Group's audited financial statements have been published and there has been no significant change in the financial position of the Group since 30 June 2011, being the date of the Group's last published IFRS interim financial statements.

Interests of Natural and Legal Persons Involved in the Issue

So far as the Issuer is aware, no person involved in the offer of the Notes has an interest material to the offer.

Accounts and Auditors

The audited consolidated financial statements of the Bank as of 31 December 2009 and 2008 have been prepared in accordance with IFRS and have been audited without qualification by PwC, independent certified public accountants in Turkey, located at BJK Plaza, Süleyman Seba Caddesi, No. 48 B Blok, Kat 9 Akaretler, Beşiktaş 34357 Istanbul, Turkey, as stated in the report appearing herein. PwC is an institution authorised by the BRSA to conduct independent audits of banks in Turkey. PwC is a member of the Union of Certified Public Accountants of Turkey.

The consolidated annual financial statements of the Bank as of 31 December 2010 have been audited without qualification, and the interim condensed consolidated IFRS financial statements as of 30 June 2010 and 2011 and the interim condensed consolidated BRSA financial statements as of 30 September 2010 and 2011, have been reviewed by EY, independent certified public accountants in Turkey, located at Büyükdere, Cad. Beytem Plaza, Kat 1-3-8-9-10, Istanbul, 34381 Turkey, as stated in the reports appearing herein. EY is an institution authorised by the BRSA to conduct independent audits of banks in Turkey. The Bank's accounts are prepared on a quarterly basis in accordance with BRSA and semi-annual and annual basis in accordance with IFRS.

Litigation

Save as disclosed on page 23 under the title '*The Bank is appealing a judgment in the Istanbul Commercial Court and has not recorded any provisions in its financial statements in respect of the judgment*' and on page 134 under the title '*Legal Proceedings*' of this Offering Memorandum, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware), which may have, or have had, during the

12 months prior to the date of this Offering Memorandum, a significant effect on the Group's consolidated financial position.

Documents

The Bank produces audited consolidated annual and unaudited consolidated half-yearly and quarterly interim consolidated accounts. Copies of the latest audited annual and unaudited half-yearly interim reports of the Bank (in English) delivered by the Bank pursuant to Condition 5 may be obtained and copies (with certified English translations where the documents at issue are not in English) of the Bank's articles of association and of its audited financial statements as of and for the years ended 31 December 2008, 2009 and 2010, and copies of the Transaction Documents referred to herein (including the forms of the Notes) will be available for inspection, at the offices of the Issuer.

Material Contracts

Save as disclosed in this Offering Memorandum under "*Business of the Bank*", the Bank has not entered into any material contract outside the ordinary course of its business, which could result in the Bank being under an obligation or entitlement that is material to its ability to meet its obligations in respect of the Notes.

ANNEX A – SUMMARY OF DIFFERENCES BETWEEN IFRS AND BRSA ACCOUNTING PRINCIPLES

The BRSA Principles differ from IFRS. Such differences primarily relate to format of presentation of financial statements, disclosure requirements (e.g. IFRS 7) and accounting policies. BRSA format and disclosure requirements are prescribed by relevant regulations and do not always meet IFRS or IAS 34 standards. Among the differences in accounting policies some of the most important are:

- *Consolidation.* Only financial sector subsidiaries and associates are consolidated under BRSA Principles, others are carried at cost or at fair value.
- *Associates.* The definitions of “associate” differ; under the BRSA Principles “associate” is an entity in whose capital the parent bank participates and over which it has significant influence but no capital or management control, whose main operation is banking and which operates pursuant to special legislation with permission and licence and is established abroad. The related associate is consolidated according to the equity method and materiality principle. According to BRSA Principles, if the parent bank has 10% or more of the voting rights in the associate it is presumed to have significant influence on that associate unless proven otherwise, whereas according to IFRS the applicable rate of voting rights is 20% or more.
- *Specific provisioning for loan losses.* The BRSA provisioning for loan losses is different from the IAS 39 and is based on minimum percentages relating to number of days overdue prescribed by relevant regulations, whereas the IFRS provisioning for loan losses is based on the present value of future cash flows discounted at original effective interest rates.
- *General loan loss provisioning.* This is required under BRSA Principles but prohibited under IFRS. Instead, IFRS require portfolio/collective provisioning for groups of loans and receivables sharing similar characteristics and not individually identified as impaired. Moreover, the BRSA generic provisioning is based on minimum percentages defined in regulations for many asset classes (both on-balance and off-balance sheet), not only for loans, which is not the case with IFRS.
- *Investment property and assets held for sale.* Definitions and accounting treatment according to BRSA Principles are different from those under IFRS (based on regulations prescribed by the BRSA). Under the BRSA Principles depreciation of assets held for sale is taken into account, whereas pursuant to IFRS it is carried at lower of cost or fair value less cost to sell.
- *Deferred taxation.* Certain differences exist in this area. According to the IAS 12 Income Taxes deferred taxation is calculated in full on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements when it is probable that the future economic benefit resulting from the reversal of temporary differences will flow to or from the Group, whereas under the BRSA Principles there are some specific exemptions. For example, under the BRSA Principles no deferred tax is computed in relation to general loan loss provisions.
- *Application period for hyperinflationary accounting.* Under the BRSA Principles, this period ends at 1 January 2005 whereas under IFRS it ends at 1 January 2006, constituting a one year difference between the two.

Similar differences with IFRS also exist in the accounting policies and disclosure requirements applied to consolidated subsidiaries, especially those providing life and non-life insurance services which are subject to Undersecretariat of Treasury policies/requirements and factoring and leasing services which are subject to specific BRSA policies/requirements.

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(*) The 2009, 2008 and 2007 Annual IFRS Financial Statements were audited by the Bank's independent auditors at the time, Başaran Nas Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş., as a member of PricewaterhouseCoopers ("PwC").

Yapı ve Kredi Bankası A.Ş.

Publicly announced consolidated interim financial statements and related disclosures at September 30, 2011 together with independent auditor's review report

(Convenience translation of publicly announced consolidated financial statements and review report originally issued in Turkish, See Note I. of Section three)

(Convenience translation of the independent auditor's review report originally issued in Turkish, See Note I. of Section three)

To the Board of Directors of Yapı ve Kredi Bankası A.Ş.

We have reviewed the accompanying consolidated balance sheet of Yapı ve Kredi Bankası A.Ş. ("the Bank") and its consolidated subsidiaries ("the Group") at September 30, 2011 and the related consolidated income statement, consolidated statement of income and expense items accounted under shareholders' equity, consolidated statement of cash flows and consolidated statement of changes in shareholders' equity for the period then ended. These financial statements are the responsibility of the Bank's management. Our responsibility as independent auditors is to issue a report on these financial statements based on our review.

We conducted our review in accordance with the regulations on account and booking system and accounting and independent audit principles set out as per the Banking Act No. 5411. Those principles require that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to applying analytical procedures to financial data and making inquiries of the Group's management, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not give a true and fair view of the financial position of Yapı ve Kredi Bankası A.Ş. and its consolidated subsidiaries at September 30, 2011 and of the results of its operations and its cash flows for the period then ended in accordance with accounting principles and standards set out by regulations in conformity with Articles 37 and 38 of the Banking Act No. 5411 and other regulations, interpretations and circulars published by the Banking Regulation and Supervision Agency on accounting and financial reporting principles.

Additional paragraph for convenience translation:

As explained in detail in Note I. of Section Three, the effects of differences between accounting principles and standards set out by regulations in conformity with Articles 37 and 38 of the Banking Act No. 5411, accounting principles generally accepted in countries in which the accompanying consolidated financial statements are to be distributed and International Financial Reporting Standards ("IFRS") have not been quantified in the accompanying consolidated financial statements. Accordingly, the accompanying consolidated financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with the accounting principles generally accepted in such countries and IFRS.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited

Selim Elhadeif, SMMM
Partner

Istanbul, November 3, 2011

(Convenience translation of publicly announced consolidated interim financial statements and review report originally issued in Turkish, See Note I. of Section three)

**The consolidated interim financial report of
Yapı ve Kredi Bankası A.Ş. as of September 30, 2011**

Yapı ve Kredi Bankası A.Ş.
Head Quarters
Yapı Kredi Plaza D Blok
Levent 34330 İstanbul
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The consolidated financial report includes the following sections in accordance with the "Communiqué Related to Publicly Announced Financial Statements of Banks and Explanations and Notes Related to these Financial Statements" as sanctioned by the Banking Regulation and Supervision Agency.

- **Section one** - General information about the parent bank
- **Section two** - Consolidated financial statements of the parent bank
- **Section three** - Explanations on accounting policies applied in the related period
- **Section four** - Information related to financial position of the group
- **Section five** - Explanations and notes related to consolidated financial statements
- **Section six** - Other explanations
- **Section seven** - Independent auditor's review report

Investments in associates, subsidiaries and joint ventures whose financial statements have been consolidated in this reporting package are as follows.

Subsidiaries	Associates	Joint Ventures
1. Yapı Kredi Sigorta A.Ş. 2. Yapı Kredi Emeklilik A.Ş. 3. Yapı Kredi Finansal Kiralama A.O. 4. Yapı Kredi Faktoring A.Ş. 5. Yapı Kredi Yatırım Menkul Değerler A.Ş. 6. Yapı Kredi B Tipi Yatırım Ortaklığı A.Ş. 7. Yapı Kredi Portföy Yönetimi A.Ş. 8. Yapı Kredi Holding B.V. 9. Yapı Kredi Bank Nederland N.V. 10. Yapı Kredi Bank Moscow 11. Sticking Custody Services YKB 12. Yapı Kredi Bank Azerbaijan CJSC 13. Yapı Kredi Invest LLC	1. Banque de Commerce et de Placements S.A.	1. Yapı Kredi Koray Gayrimenkul Yatırım Ortaklığı A.Ş.

Additionally, although, Yapı Kredi Diversified Payment Rights Finance Company, a "Special Purpose Entity", is not a subsidiary of the Bank, as our Bank has a control of 100% it has been included in the consolidation.

The accompanying consolidated financial statements and notes to these financial statements which are expressed, unless otherwise stated, in **thousands of Turkish Lira ("TL")** have been prepared and presented based on the accounting books of the Bank in accordance with The Regulation on the Principles and Procedures Regarding Banks' Accounting Applications and Safeguarding of Documents, Turkish Accounting Standards, Turkish Financial Reporting Standards, and related appendices and interpretations of these, and have been reviewed.

Mustafa V. KOÇ
Chairman of the
Board of Directors

H. Faik AÇIKALIN
Chief Executive Officer

Marco CRAVARIO
Chief Financial Officer

M. Gökmen UÇAR
Financial Reporting
and Accounting
Executive Vice President

Gianni F. G. PAPA
President of Audit Committee

Francesco GIORDANO
Member of Audit Committee

Füsün Akkal BOZOK
Member of Audit Committee

Contact information of the personnel in charge of addressing questions about this financial report:

Name-Surname / Title : Serkan Savaş / International Reporting and Consolidation Manager
Telephone Number : 0 212 339 63 22
Fax Number : 0 212 339 61 05

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Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements at September 30, 2011

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Section one

General information about the Group

I. History of the Parent Bank including its incorporation date, initial legal status and amendments to legal status, if any:

Yapı ve Kredi Bankası A.Ş. ("the Bank", "Yapı Kredi" or "the Parent Bank"), was established and started operations on September 9, 1944 with the permission of the Council of Ministers No. 3/6710 as a private capital commercial bank authorised to perform all banking, economic, financial and commercial activities which are allowed by the laws of the Turkish Republic. The statute of the Bank has not changed since its incorporation.

II. Explanation about the Parent Bank's capital structure, shareholders holding directly or indirectly, collectively or individually, the management and controlling power and changes in current year, if any and explanations on the controlling group of the Bank:

The Parent Bank's publicly traded shares are traded on the Istanbul Stock Exchange ("ISE") since 1987 and the representatives of these shares, Global Depository Receipts, are quoted in London Stock Exchange. As of September 30, 2011, 18,20% of the shares of the Bank are publicly traded (December 31, 2010 - 18,20%). The remaining 81,80% is owned by Koç Finansal Hizmetler A.Ş. ("KFS"), a joint venture of UniCredit ("UCI") and Koç Group.

KFS was established on March 16, 2001 to combine Koç Group finance companies under one organisation and it became the main shareholder of Koçbank in 2002. On October 22, 2002, Koç Group established a strategic partnership with UCI over KFS.

In 2005, the Bank's shares that were owned by Çukurova Group Companies and the Saving Deposits Insurance Fund ("SDIF") were purchased by Koçbank. In 2006, Koçbank purchased additional shares of the Bank from ISE and an investment fund and, during the same year, all rights, receivables, debts and liabilities of Koçbank were transferred to the Bank pursuant the merger of the two banks.

In 2006 and 2007, with the acquisition of Yapı Kredi and its subsidiaries, KFS Group launched structural reorganisation and the following subsidiaries were legally merged:

Merging entities		Merger date	Merged entity
Yapı Kredi	Koçbank	October 2, 2006	Yapı Kredi
Yapı Kredi Finansal Kiralama A.O. ("Yapı Kredi Leasing")	Koç Leasing	December 25, 2006	Yapı Kredi Leasing
Yapı Kredi Faktoring A.Ş. ("Yapı Kredi Faktoring")	Koç Faktoring	December 29, 2006	Yapı Kredi Faktoring
Yapı Kredi Portföy Yönetimi A.Ş. ("Yapı Kredi Portföy")	Koç Portföy	December 29, 2006	Yapı Kredi Portföy
Yapı Kredi Yatırım Menkul Değerler A.Ş. ("Yapı Kredi Menkul")	Koç Yatırım	January 12, 2007	Yapı Kredi Menkul
Yapı Kredi Bank Nederland N.V. ("Yapı Kredi NV")	Koçbank	July 2, 2007	Yapı Kredi NV
	Nederland N.V.		

After the merger and the share transfer procedures in 2007 and the capital increase by TL 920 million in 2008, KFS owns 81,80% of the shares of the Bank.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements at September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

General information about the Group (continued)

III. Explanation regarding the board of directors, members of the audit committee, Chief Executive Officer and executive vice presidents, and their areas of responsibility and shares if any:

As of September 30, 2011, the Parent Bank's Board of Directors, Members of the Audit Committee and General Manager and Assistant General Managers are as follows:

Board of Directors Members:

Name	Responsibility
Mustafa V. KOÇ	Chairman
Gianni F.G. PAPA	Vice Chairman
H. Faik AÇIKALIN	Chief Executive Officer
Carlo VIVALDI	Executive Director and Deputy Chief Executive Officer
Ahmet F. ASHABOĞLU	Member
Fusun Akkal BOZOK	Member
Francesco GIORDANO	Member
O. Turgay DURAK	Member
Massimiliano FOSSATI	Member
Vittorio G.M. OGLIENGO	Member

General Manager and Assistant General Managers:

Name	Responsibility
H. Faik AÇIKALIN	General Manager
Carlo VIVALDI	Deputy General Manager
Mehmet Güray ALPKAYA	Corporate Sales Management
Marco CRAVARIO	Financial Planning and Administration Management
Yakup DOĞAN	Alternative Distribution Channels
Mehmet Murat ERMERT	Corporate Communication Management
Mert GÜVENEN	Corporate and Commercial Banking Management
Süleyman Cihangir KAVUNCU	Human Resources Management
Mert ÖNCÜ	Treasury Management
Mehmet Erkan ÖZDEMİR	Compliance Officer
Stefano PERAZZINI	Internal Audit
Yüksel RİZELİ	Information Systems and Operation Management
Cemal Aybars SANAL	Legal Activities Management
Wolfgang SCHILK	Risk Management
Zeynep Nazan SOMER	Retail Banking Management
Feza TAN	Corporate and Commercial Credit Management
Selim Hakkı TEZEL	Consumer and SME Credit Management
Mert YAZICIOĞLU	Private Banking and Asset Management

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements at September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

General information about the Group (continued)

Audit Committee Members:

Name	Responsibility
Gianni F.G. PAPA	Chairman
Fusun Akkal BOZOK	Member
Francesco GIORDANO	Member

Statutory Auditors:

Name	Responsibility
Abdullah GEÇER	Auditor
Adil G. ÖZTOPRAK	Auditor

The shares of the above individuals in the Bank are insignificant.

IV. Information on the individual and corporate shareholders having control shares of the Parent Bank:

Name/Commercial title	Share amounts (nominal)	Share percentage	Paid-in capital (nominal)	Unpaid portion
Koç Finansal Hizmetler A.Ş.	3.555.712.396,07	81,80%	3.555.712.396,07	-

V. Summary information on the parent bank's activities and service types:

The Parent Bank's activities summarized from the section 5 of the articles of association are as follows:

The Parent Bank's purpose and subject matter in accordance with the Banking Law, regulations and existing laws include:

- The execution of all banking activities,
- The execution of all economic and financial activities which are allowed by the regulation,
- The execution of the representation, attorney and agency activities related to the subjects written above,
- The purchase and sale of share certificates, bonds and all the capital market instruments, in accordance with Capital Market Law and regulations.

In case of necessity for performing activities which are useful and required but that are not specified in the articles of association, a Board of Directors' proposal is to be presented to the General Assembly. With the approval of the General Assembly the proposal becomes applicable, subject to the approvals required by law.

As of September 30, 2011, the Parent Bank has 893 branches operating in Turkey and 1 branch in off-shore region (December 31, 2010 - 867 branches operating in Turkey, 1 branch in off-shore region).

As of September 30, 2011, the Parent Bank has 14.704 employees (December 31, 2010 - 14.411 employees). The Parent Bank together with its consolidated subsidiaries is referred to as the "Group" in these consolidated financial statements. As of September 30, 2011 the Group has 17.106 employees (December 31, 2010 - 16.780 employees).

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

Yapı ve Kredi Bankası A.Ş.

Consolidated financial statements at September 30, 2011 and December 31, 2010

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Section two Consolidated financial statements

I. Consolidated balance sheet

		(30/09/2011)			(31/12/2010)		
Assets	Note (Section Five)	TL	FC	Total	TL	FC	Total
I. Cash and balances with Central Bank	I-a	5.971.630	5.678.462	11.650.092	2.558.311	3.476.115	6.034.426
II. Financial assets at fair value through profit or (loss) (net)	I-b	623.581	95.625	719.206	938.171	131.944	1.070.115
2.1 Trading financial assets		623.581	95.625	719.206	938.171	131.944	1.070.115
2.1.1 Government debt securities		217.960	5.580	223.540	239.553	60.999	300.552
2.1.2 Share certificates		2.933	-	2.933	6.448	-	6.448
2.1.3 Derivative financial assets held for trading		333.724	89.122	422.846	622.779	70.745	693.524
2.1.4 Other marketable securities		68.964	923	69.887	69.391	200	69.591
2.2 Financial assets designated at fair value through profit/(loss)		-	-	-	-	-	-
2.2.1 Government debt securities		-	-	-	-	-	-
2.2.2 Share certificates		-	-	-	-	-	-
2.2.3 Loans		-	-	-	-	-	-
2.2.4 Other marketable securities		-	-	-	-	-	-
III. Banks	I-c	719.071	2.833.315	3.552.386	708.938	1.854.792	2.563.730
IV. Money markets		34.483	-	34.483	970.970	-	970.970
4.1 Interbank money market placements		-	-	-	-	-	-
4.2 Receivables from Istanbul Stock Exchange Money Market		14.083	-	14.083	-	-	-
4.3 Receivables from reverse repurchase agreements		20.400	-	20.400	970.970	-	970.970
V. Financial assets available-for-sale (net)	I-d	6.229.245	1.465.790	7.695.035	4.422.875	1.453.105	5.875.980
5.1 Share certificates		17.100	329	17.429	16.331	269	16.600
5.2 Government debt securities		4.716.134	1.018.940	5.735.074	3.339.007	1.077.982	4.416.989
5.3 Other marketable securities		1.496.011	446.521	1.942.532	1.067.537	374.854	1.442.391
VI. Loans and receivables	I-e	43.008.245	25.417.019	68.425.264	34.957.515	19.718.347	54.675.862
6.1 Loans and receivables		42.522.406	25.304.982	67.827.388	34.562.909	19.680.071	54.242.980
6.1.1 Loans to Bank's risk group		418.788	744.057	1.162.845	733.913	494.603	1.228.516
6.1.2 Government debt securities		-	-	-	-	-	-
6.1.3 Other		42.103.618	24.560.925	66.664.543	33.828.996	19.185.468	53.014.464
6.2 Loans under follow-up		1.883.199	217.410	2.100.609	1.766.342	141.624	1.907.966
6.3 Specific provisions (-)		(1.397.360)	(105.373)	(1.502.733)	(1.371.736)	(103.348)	(1.475.084)
VII. Factoring receivables		786.462	968.243	1.754.705	1.082.586	742.306	1.824.892
VIII. Held-to-maturity investments (net)	I-f	3.450.405	9.140.525	12.590.930	5.319.830	7.655.114	12.974.944
8.1 Government debt securities		3.450.405	9.140.525	12.590.930	5.319.830	7.655.114	12.974.944
8.2 Other marketable securities		-	-	-	-	-	-
IX. Investments in associates (net)	I-g	4.503	98.505	103.008	3.940	71.906	75.846
9.1 Consolidated based on equity method		-	98.505	98.505	-	71.906	71.906
9.2 Unconsolidated		4.503	-	4.503	3.940	-	3.940
9.2.1 Investments in financial associates		4.503	-	4.503	3.940	-	3.940
9.2.2 Investments in non-financial associates		-	-	-	-	-	-
X. Subsidiaries (net)	I-h	2.300	-	2.300	2.300	-	2.300
10.1 Unconsolidated financial subsidiaries		-	-	-	-	-	-
10.2 Unconsolidated non-financial subsidiaries		2.300	-	2.300	2.300	-	2.300
XI. Joint ventures (net)	I-i	19.963	-	19.963	22.265	-	22.265
11.1 Accounted based on equity method		19.963	-	19.963	22.265	-	22.265
11.2 Unconsolidated		-	-	-	-	-	-
11.2.1 Financial joint ventures		-	-	-	-	-	-
11.2.2 Non-financial joint ventures		-	-	-	-	-	-
XII. Lease receivables	I-j	512.335	2.163.840	2.676.175	384.445	1.605.169	1.989.614
12.1 Financial lease receivables		614.582	2.517.944	3.132.526	461.940	1.869.514	2.331.454
12.2 Operating lease receivables		-	-	-	-	-	-
12.3 Other		-	-	-	-	-	-
12.4 Unearned income (-)		(102.247)	(354.104)	(456.351)	(77.495)	(264.345)	(341.840)
XIII. Derivative financial assets held for hedging	I-k	212.345	136	212.481	34.463	3.738	38.201
13.1 Fair value hedge		212.345	-	212.345	34.463	-	34.463
13.2 Cash flow hedge		-	136	136	-	3.738	3.738
13.3 Foreign net investment hedge		-	-	-	-	-	-
XIV. Property and equipment (net)		1.176.576	18.179	1.194.755	1.139.529	16.986	1.156.515
XV. Intangible assets (net)	I-l	1.249.724	1.485	1.251.209	1.241.866	1.214	1.243.080
15.1 Goodwill		979.493	-	979.493	979.493	-	979.493
15.2 Other		270.231	1.485	271.716	262.373	1.214	263.587
XVI. Investment property (net)	I-m	-	-	-	-	-	-
XVII. Tax asset		407.382	2.129	409.511	317.180	2.248	319.428
17.1 Current tax asset		-	560	560	-	1.223	1.223
17.2 Deferred tax asset		407.382	1.569	408.951	317.180	1.025	318.205
XVIII. Assets held for resale and related to discontinued operations (net)	I-n	91.607	-	91.607	82.416	-	82.416
18.1 Held for sale		91.607	-	91.607	82.416	-	82.416
18.2 Related to discontinued operations		-	-	-	-	-	-
XIX. Other assets	I-o	1.302.993	2.211.691	3.514.684	957.024	936.450	1.893.474
Total assets		65.802.850	50.094.944	115.897.794	55.144.624	37.669.434	92.814.058

The accompanying explanations and notes form an integral part of these consolidated financial statements.

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

Yapı ve Kredi Bankası A.Ş.

Consolidated financial statements at September 30, 2011 and December 31, 2010

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

I. Consolidated balance sheet

		(30/09/2011)			(31/12/2010)		
Liabilities	Note (Section Five)	TL	FC	Total	TL	FC	Total
I. Deposits	II-a	34.005.578	31.849.066	65.854.644	32.261.175	22.945.827	55.207.002
1.1 Deposits of the Bank's risk group		4.014.729	4.016.640	8.031.369	3.707.671	3.157.886	6.865.557
1.2 Other		29.990.849	27.832.426	57.823.275	28.553.504	19.787.941	48.341.445
II. Derivative financial liabilities held for trading	II-b	416.367	139.799	556.166	294.227	64.941	359.168
III. Funds Borrowed	II-c	1.209.953	11.667.939	12.877.892	2.026.611	8.046.459	10.073.070
IV. Money markets		2.761.028	5.097.969	7.858.997	469.580	3.181.436	3.651.016
4.1 Funds from interbank money market		-	23.397	23.397	-	29.843	29.843
4.2 Funds from İstanbul Stock Exchange Money Market		814.725	-	814.725	401.755	-	401.755
4.3 Funds provided under repurchase agreements		1.946.303	5.074.572	7.020.875	67.825	3.151.593	3.219.418
V. Marketable securities issued (net)	II-d	930.372	2.260.572	3.190.944	-	1.394.904	1.394.904
5.1 Bonds		930.372	6.078	936.450	-	19.485	19.485
5.2 Asset backed securities		-	2.254.494	2.254.494	-	1.375.419	1.375.419
5.3 Bills		-	-	-	-	-	-
VI. Funds		-	-	-	-	-	-
6.1 Borrower funds		-	-	-	-	-	-
6.2 Other		-	-	-	-	-	-
VII. Miscellaneous payables		4.028.722	568.039	4.596.761	3.421.542	784.429	4.205.971
VIII. Other liabilities	II-e	1.252.176	662.664	1.914.840	703.682	340.801	1.044.483
IX. Factoring payables		-	-	-	-	-	-
X. Lease payables	II-f	-	-	-	-	-	-
10.1 Financial lease payables		-	-	-	-	-	-
10.2 Operational lease payables		-	-	-	-	-	-
10.3 Other		-	-	-	-	-	-
10.4 Deferred lease expenses (-)		-	-	-	-	-	-
XI. Derivative financial liabilities held for hedging	II-g	254.512	449.155	703.667	352.025	101.638	453.663
11.1 Fair value hedge		66.164	-	66.164	313.917	-	313.917
11.2 Cash flow hedge		188.348	449.155	637.503	38.108	101.638	139.746
11.3 Foreign net investment hedge		-	-	-	-	-	-
XII. Provisions	II-h	2.673.263	793.153	3.466.416	2.576.902	702.836	3.279.738
12.1 General loan loss provision		601.385	370.936	972.321	520.460	306.393	826.853
12.2 Restructuring provisions		-	-	-	-	-	-
12.3 Reserve for employee rights		181.480	4.089	185.569	178.753	3.214	181.967
12.4 Insurance technical provisions (net)		699.339	345.249	1.044.588	614.469	316.238	930.707
12.5 Other provisions		1.191.059	72.879	1.263.938	1.263.220	76.991	1.340.211
XIII. Tax liability	II-i	270.101	-	270.101	286.688	2.312	289.000
13.1 Current tax liability		270.101	-	270.101	286.688	180	286.868
13.2 Deferred tax liability		-	-	-	-	2.132	2.132
XIV. Liabilities for property and equipment held for sale and related to discontinued operations (net)		-	-	-	-	-	-
14.1 Held for sale purpose		-	-	-	-	-	-
14.2 Related to discontinued operations		-	-	-	-	-	-
XV. Subordinated loans	II-j	-	2.598.485	2.598.485	-	2.110.274	2.110.274
XVI. Shareholders' equity	II-k	12.536.167	(527.286)	12.008.881	10.824.482	(78.713)	10.745.769
16.1 Paid-in capital		4.347.051	-	4.347.051	4.347.051	-	4.347.051
16.2 Capital reserves		939.542	(527.286)	412.256	812.686	(78.713)	733.973
16.2.1 Share premium		543.881	-	543.881	543.881	-	543.881
16.2.2 Share cancellation profits		-	-	-	-	-	-
16.2.3 Marketable securities valuation differences	II-k	251.746	22.517	274.263	187.262	65.535	252.797
16.2.4 Property and equipment revaluation differences		-	-	-	-	-	-
16.2.5 Intangible assets revaluation differences		-	-	-	-	-	-
16.2.6 Revaluation differences of investment property		-	-	-	-	-	-
16.2.7 Bonus shares from investments in associates, subsidiaries and joint ventures		-	-	-	-	-	-
16.2.8 Hedging funds (effective portion)		(2.726)	(549.803)	(552.529)	812	(144.248)	(143.436)
16.2.9 Value increase in property and equipment held for sale and related to discontinued operations		-	-	-	-	-	-
16.2.10 Other capital reserves		146.641	-	146.641	80.731	-	80.731
16.3 Profit reserves		5.197.101	-	5.197.101	3.202.502	-	3.202.502
16.3.1 Legal reserves		266.973	-	266.973	163.959	-	163.959
16.3.2 Status reserves		-	-	-	-	-	-
16.3.3 Extraordinary reserves		4.930.128	-	4.930.128	3.038.543	-	3.038.543
16.3.4 Other profit reserves		-	-	-	-	-	-
16.4 Income or (loss)		1.986.540	-	1.986.540	2.399.148	-	2.399.148
16.4.1 Prior years' income or (loss)		338.858	-	338.858	151.117	-	151.117
16.4.2 Current year income or (loss)		1.647.682	-	1.647.682	2.248.031	-	2.248.031
16.5 Minority interest	II-l	65.933	-	65.933	63.095	-	63.095
Total liabilities and shareholders' equity		60.338.239	55.559.555	115.897.794	53.216.914	39.597.144	92.814.058

The accompanying explanations and notes form an integral part of these consolidated financial statements.

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

Yapı ve Kredi Bankası A.Ş.

Consolidated financial statements at September 30, 2011 and December 31, 2010

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

II. Consolidated off-balance sheet commitments

		(30/09/2011)			(31/12/2010)		
	Note (Section Five)	TL	FC	Total	TL	FC	Total
A	Off-balance sheet commitments (I+II+III)	56.850.076	81.362.152	138.212.228	46.872.065	56.333.943	103.206.008
I	Guarantees and warranties	10.208.663	15.972.759	26.181.422	7.798.109	11.894.444	19.692.553
1.1	Letters of guarantee	9.390.926	9.011.621	18.402.547	7.780.097	7.167.366	14.947.463
1.1.1	Guarantees subject to state tender law	497.109	672.703	1.169.812	510.007	596.097	1.106.104
1.1.2	Guarantees given for foreign trade operations	1.066.139	8.202.864	9.269.003	840.037	6.434.849	7.274.886
1.1.3	Other letters of guarantee	7.827.678	136.054	7.963.732	6.430.053	136.420	6.566.473
1.2	Bank acceptances	-	163.360	163.360	-	165.797	165.797
1.2.1	Import letter of acceptance	-	163.360	163.360	-	165.797	165.797
1.2.2	Other bank acceptances	-	-	-	-	-	-
1.3	Letters of credit	8.007	5.308.246	5.316.253	12.337	3.987.536	3.999.873
1.3.1	Documentary letters of credit	8.007	5.297.344	5.305.351	12.337	3.974.126	3.986.463
1.3.2	Other letters of credit	-	10.902	10.902	-	13.410	13.410
1.4	Prefinancing given as guarantee	143	2.461	2.604	143	2.062	2.205
1.5	Endorsements	-	-	-	-	-	-
1.5.1	Endorsements to the Central Bank of the Republic of Turkey	-	-	-	-	-	-
1.5.2	Other endorsements	-	-	-	-	-	-
1.6	Securities issue purchase guarantees	-	-	-	-	-	-
1.7	Factoring guarantees	-	-	-	-	-	-
1.8	Other guarantees	809.587	541.358	1.350.945	5.532	269.072	274.604
1.9	Other warranties	-	945.713	945.713	-	302.611	302.611
II	Commitments	23.236.008	3.420.248	26.656.256	19.805.392	2.819.338	22.624.730
2.1	Irrevocable commitments	23.236.008	3.420.248	26.656.256	19.805.392	2.819.338	22.624.730
2.1.1	Asset purchase and sale commitments	368.136	2.337.733	2.705.869	4.000	2.544.040	2.544.040
2.1.2	Deposit purchase and sales commitments	1.069	-	1.069	44	9.797	9.841
2.1.3	Share capital commitments to associates and subsidiaries	1.000	-	1.000	2.000	-	2.000
2.1.4	Loan granting commitments	3.915.094	1.044.640	4.959.734	3.070.259	233.241	3.303.500
2.1.5	Securities issue brokerage commitments	-	-	-	-	-	-
2.1.6	Commitments for reserve deposit requirements	-	-	-	-	-	-
2.1.7	Commitments for cheques	4.141.074	-	4.141.074	3.653.626	-	3.653.626
2.1.8	Tax and fund liabilities from export commitments	36.127	-	36.127	39.486	-	39.486
2.1.9	Commitments for credit card limits	13.352.994	37.845	13.390.839	11.706.172	21.507	11.727.679
2.1.10	Commitments for credit cards and banking services promotions	-	-	-	-	-	-
2.1.11	Receivables from short sale commitments of marketable securities	-	-	-	-	-	-
2.1.12	Payables for short sale commitments of marketable securities	-	-	-	-	-	-
2.1.13	Other irrevocable commitments	1.420.514	30	1.420.544	1.333.805	10.753	1.344.558
2.2	Revocable commitments	-	-	-	-	-	-
2.2.1	Revocable loan granting commitments	-	-	-	-	-	-
2.2.2	Other revocable commitments	-	-	-	-	-	-
III	Derivative financial instruments	23.405.405	61.969.145	85.374.550	19.268.564	41.620.161	60.888.725
3.1	Derivative financial instruments for hedging purposes	8.902.828	28.872.827	37.775.655	3.446.632	9.397.626	12.844.258
3.1.1	Transactions for fair value hedge	2.811.228	3.385.890	6.197.118	2.106.632	2.210.606	4.317.238
3.1.2	Transactions for cash flow hedge	6.091.600	25.486.937	31.578.537	1.340.000	7.187.020	8.527.020
3.1.3	Transactions for foreign net investment hedge	-	-	-	-	-	-
3.2	Trading transactions	14.502.577	33.096.318	47.598.895	15.821.932	32.222.535	48.044.467
3.2.1	Forward foreign currency buy/sell transactions	2.087.111	5.438.598	7.525.709	2.081.770	3.206.163	5.287.933
3.2.1.1	Forward foreign currency transactions-buy	406.647	3.355.409	3.762.056	637.179	2.004.987	2.642.166
3.2.1.2	Forward foreign currency transactions-sell	1.680.464	2.083.189	3.763.653	1.444.591	1.201.176	2.645.767
3.2.2	Swap transactions related to foreign currency and interest rates	6.144.088	16.911.645	23.055.733	8.030.332	21.979.345	30.009.677
3.2.2.1	Foreign currency swap-buy	4.720.008	4.699.285	9.419.293	5.869.467	7.636.788	13.506.255
3.2.2.2	Foreign currency swap-sell	1.424.080	8.087.524	9.511.604	1.960.865	11.000.959	12.961.824
3.2.2.3	Interest rate swap-buy	-	2.062.418	2.062.418	100.000	1.670.799	1.770.799
3.2.2.4	Interest rate swap-sell	-	2.062.418	2.062.418	100.000	1.670.799	1.770.799
3.2.3	Foreign currency, interest rate and securities options	5.564.378	10.193.927	15.758.305	5.159.829	6.683.197	11.843.026
3.2.3.1	Foreign currency options-buy	2.393.924	3.141.060	5.534.984	2.330.226	3.125.062	5.455.288
3.2.3.2	Foreign currency options-sell	2.619.828	2.896.852	5.516.680	2.524.459	2.944.966	5.469.425
3.2.3.3	Interest rate options-buy	262.350	2.363.118	2.625.468	-	-	-
3.2.3.4	Interest rate options-sell	187.350	1.691.375	1.878.725	-	-	-
3.2.3.5	Securities options-buy	50.463	50.761	101.224	152.572	340.122	492.694
3.2.3.6	Securities options-sell	50.463	50.761	101.224	152.572	273.047	425.619
3.2.4	Foreign currency futures	-	-	-	-	-	-
3.2.4.1	Foreign currency futures-buy	-	-	-	-	-	-
3.2.4.2	Foreign currency futures-sell	-	-	-	-	-	-
3.2.5	Interest rate futures	-	-	-	1	-	1
3.2.5.1	Interest rate futures-buy	-	-	-	1	-	1
3.2.5.2	Interest rate futures-sell	-	-	-	-	-	-
3.2.6	Other	707.000	552.148	1.259.148	550.000	353.830	903.830
B	Custody and pledges received (IV+V+VI)	102.946.065	26.976.906	129.922.971	105.034.734	20.439.132	125.473.866
IV	Items held in custody	52.922.803	4.097.261	57.020.064	63.860.271	3.846.300	67.706.571
4.1	Customer fund and portfolio balances	24.776	125	24.901	5.569	102	5.671
4.2	Investment securities held in custody	42.721.693	3.490.014	46.211.707	55.522.712	3.387.712	58.910.424
4.3	Checks received for collection	8.395.270	91.475	8.486.745	6.615.323	62.224	6.677.547
4.4	Commercial notes received for collection	1.775.836	490.110	2.265.946	1.713.892	375.385	2.089.277
4.5	Other assets received for collection	-	25.537	25.537	-	20.877	20.877
4.6	Assets received for public offering	-	-	-	-	-	-
4.7	Other items under custody	5.228	-	5.228	2.775	-	2.775
4.8	Custodians	-	-	-	-	-	-
V	Pledges received	48.988.767	22.202.552	71.191.319	40.304.331	15.999.918	56.304.249
5.1	Marketable securities	204.017	200	204.217	281.601	167	281.768
5.2	Guarantee notes	550.789	454.002	1.004.791	433.773	380.268	814.041
5.3	Commodity	40.961	-	40.961	58.680	-	58.680
5.4	Warrants	-	-	-	-	-	-
5.5	Properties	33.794.180	16.825.018	50.619.198	27.491.727	11.473.952	38.965.679
5.6	Other pledged items	14.398.820	4.920.044	19.318.864	12.038.550	4.142.785	16.181.335
5.7	Pledged items-depository	-	3.288	3.288	-	2.746	2.746
VI	Accepted independent guarantees and warranties	1.034.495	677.093	1.711.588	870.132	592.914	1.463.046
Total off-balance sheet commitments (A+B)		159.796.141	108.339.058	268.135.199	151.906.799	76.773.075	228.679.874

The accompanying explanations and notes form an integral part of these consolidated financial statements.

Yapı ve Kredi Bankası A.Ş.

Consolidated financial statements at September 30, 2011 and 2010

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

III. Consolidated income statement

Income and expense items		Note (Section five)	01/01-30/09/2011	01/01-30/09/2010
I.	Interest income	IV-a	5.625.324	4.767.607
1.1	Interest on loans	IV-a-1	4.080.165	3.444.447
1.2	Interest received from reserve deposits		373	55.291
1.3	Interest received from banks	IV-a-2	84.699	49.205
1.4	Interest received from money market transactions		3.247	43.020
1.5	Interest received from marketable securities portfolio	IV-a-3	1.186.823	947.468
1.5.1	Trading financial assets		27.739	12.756
1.5.2	Financial assets at fair value through profit or (loss)		-	-
1.5.3	Available-for-sale financial assets		423.030	144.776
1.5.4	Held to maturity investments		736.054	789.936
1.6	Financial lease income		163.229	151.551
1.7	Other interest income		106.788	76.625
II.	Interest expense	IV-b	(2.927.970)	(2.063.901)
2.1	Interest on deposits	IV-b-3	(2.251.948)	(1.729.424)
2.2	Interest on funds borrowed	IV-b-1	(388.902)	(266.527)
2.3	Interest expense on money market transactions		(236.354)	(46.102)
2.4	Interest on securities issued		(41.242)	(19.505)
2.5	Other interest expenses		(9.524)	(2.343)
III.	Net interest income (I + II)		2.697.354	2.703.706
IV.	Net fees and commissions income		1.434.418	1.270.993
4.1	Fees and commissions received		1.775.418	1.514.554
4.1.1	Non-cash loans		174.432	165.999
4.1.2	Other	IV-k	1.600.986	1.348.555
4.2	Fees and commissions paid		(341.000)	(243.561)
4.2.1	Non-cash loans		(3.490)	(2.629)
4.2.2	Other		(337.510)	(240.932)
V.	Dividend income		5.891	1.082
VI.	Trading gain/(loss) (net)	IV-c	(67.703)	(1.829)
6.1	Trading gains/(losses) on securities		31.443	67.792
6.2	Derivative financial transactions gains/(losses)	IV-d	(338.999)	(445.421)
6.3	Foreign exchange gains/(losses)		239.853	375.800
VII.	Other operating income	IV-e	722.845	868.500
VIII.	Total operating income (III+IV+V+VI+VII)		4.792.805	4.842.452
IX.	Provision for impairment of loans and other receivables (-)	IV-f	(641.620)	(589.051)
X.	Other operating expenses (-)	IV-g	(2.113.760)	(1.954.095)
XI.	Net operating income/(loss) (VIII+IX+X)		2.037.425	2.299.306
XII.	Excess amount recorded as income after merger		-	-
XIII.	Income/(loss) from investments accounted based on equity method		10.803	3.994
XIV.	Income/(loss) on net monetary position		-	-
XV.	Profit/(loss) before taxes from continuing operations (XI+XII+XIII+XIV)		2.048.228	2.303.300
XVI.	Tax provisions for continuing operations (±)	IV-i	(395.532)	(433.006)
16.1	Current tax provision		(376.575)	(421.368)
16.2	Deferred tax provision		(18.957)	(11.638)
XVII.	Net profit/loss from continuing operations (XV±XVI)		1.652.696	1.870.294
XVIII.	Income from discontinued operations		-	-
18.1	Income from non-current assets held for resale		-	-
18.2	Profit from sales of associates, subsidiaries and joint ventures		-	-
18.3	Other income from discontinued operations		-	-
XIX.	Expenses from discontinued operations (-)		-	-
19.1	Expenses for non-current assets held for resale		-	-
19.2	Loss from sales of associates, subsidiaries and joint ventures		-	-
19.3	Other expenses from discontinued operations		-	-
XX.	Profit /loss before taxes from discontinued operations (XVIII-XIX)		-	-
XXI.	Tax provision for discontinued operations (±)		-	-
21.1	Current tax provision		-	-
21.2	Deferred tax provision		-	-
XXII.	Net profit/loss from discontinued operations (XX±XXI)		-	-
XXIII.	Net profit/loss (XVII+XXII)	IV-j	1.652.696	1.870.294
23.1	Group's profit/loss		1.647.682	1.865.817
23.2	Minority interest profit/losses (-)	IV-l	5.014	4.477
	Earnings/(loss) per share (in TL full)		0,0038	0,0043

The accompanying explanations and notes form an integral part of these consolidated financial statements.

Yapı ve Kredi Bankası A.Ş.

Consolidated financial statements at September 30, 2011 and 2010

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

III. Consolidated income statement

Income and expense items		Note (Section five)	01/07-30/09/2011	01/07-30/09/2010
I.	Interest income	IV-a	2.101.197	1.648.493
1.1	Interest on loans	IV-a-1	1.525.535	1.188.153
1.2	Interest received from reserve deposits		146	20.195
1.3	Interest received from banks	IV-a-2	33.770	22.116
1.4	Interest received from money market transactions		939	9.166
1.5	Interest received from marketable securities portfolio	IV-a-3	439.906	329.132
1.5.1	Trading financial assets		13.446	5.505
1.5.2	Financial assets at fair value through profit or (loss)		-	-
1.5.3	Available-for-sale financial assets		141.433	46.360
1.5.4	Held to maturity investments		285.027	277.267
1.6	Financial lease income		58.427	51.834
1.7	Other interest income		42.474	27.897
II.	Interest expense	IV-b	(1.122.280)	(763.148)
2.1	Interest on deposits	IV-b-3	(857.711)	(635.924)
2.2	Interest on funds borrowed	IV-b-1	(144.104)	(93.739)
2.3	Interest expense on money market transactions		(88.347)	(25.483)
2.4	Interest on securities issued		(26.918)	(6.184)
2.5	Other interest expenses		(5.200)	(1.818)
III.	Net interest income (I + II)		978.917	885.345
IV.	Net fees and commissions income		512.400	440.619
4.1	Fees and commissions received		634.588	544.448
4.1.1	Non-cash loans		49.804	56.629
4.1.2	Other	IV-k	584.784	487.819
4.2	Fees and commissions paid		(122.188)	(103.829)
4.2.1	Non-cash loans		(1.128)	(2.509)
4.2.2	Other		(121.060)	(101.320)
V.	Dividend income		-	155
VI.	Trading gain/(loss) (net)	IV-c	(95.486)	50.755
6.1	Trading gains/(losses) on securities		22.208	32.302
6.2	Derivative financial transactions gains/(losses)	IV-d	(160.154)	446.805
6.3	Foreign exchange gains/(losses)		42.460	(428.352)
VII.	Other operating income	IV-e	186.590	328.600
VIII.	Total operating income (III+IV+V+VI+VII)		1.582.421	1.705.474
IX.	Provision for impairment of loans and other receivables (-)	IV-f	(191.003)	(236.439)
X.	Other operating expenses (-)	IV-g	(715.014)	(642.138)
XI.	Net operating income/(loss) (VIII+IX+X)		676.404	826.897
XII.	Excess amount recorded as income after merger		-	-
XIII.	Income/(loss) from investments accounted based on equity method		2.899	1.401
XIV.	Income/(loss) on net monetary position		-	-
XV.	Profit/(loss) before taxes from continuing operations (XI+XII+XIII+XIV)	IV-h	679.303	828.298
XVI.	Tax provisions for continuing operations (±)	IV-i	(127.327)	(129.627)
16.1	Current tax provision		(106.947)	(39.652)
16.2	Deferred tax provision		(20.380)	(89.975)
XVII.	Net profit/loss from continuing operations (XV±XVI)		551.976	698.671
XVIII.	Income from discontinued operations		-	-
18.1	Income from non-current assets held for resale		-	-
18.2	Profit from sales of associates, subsidiaries and joint ventures		-	-
18.3	Other income from discontinued operations		-	-
XIX.	Expenses from discontinued operations (-)		-	-
19.1	Expenses for non-current assets held for resale		-	-
19.2	Loss from sales of associates, subsidiaries and joint ventures		-	-
19.3	Other expenses from discontinued operations		-	-
XX.	Profit /losses before taxes from discontinued operations (XVIII-XIX)		-	-
XXI.	Tax provision for discontinued operations (±)		-	-
21.1	Current tax provision		-	-
21.2	Deferred tax provision		-	-
XXII.	Net profit/loss from discontinued operations (XX±XXI)		-	-
XXIII.	Net profit/loss (XVII+XXII)	IV-j	551.976	698.671
23.1	Group's profit/loss		549.223	696.523
23.2	Minority interest profit/losses (-)	IV-l	2.753	2.148
	Earnings/(loss) per share (in TL full)		0,0013	0,0016

The accompanying explanations and notes form an integral part of these consolidated financial statements.

Yapı ve Kredi Bankası A.Ş.

Consolidated financial statements at September 30, 2011 and 2010

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

IV. Consolidated statement of income and expense items accounted under shareholders' equity

	Income and expense items accounted under shareholders' equity	(30/09/2011)	(30/09/2010)
I.	Transfers to marketable securities valuation differences from financial assets available for sale	(155.538)	48.158
II.	Property and equipment revaluation differences	-	-
III.	Intangible assets revaluation differences	-	-
IV.	Currency translation differences for foreign currency transactions	149.212	(44.871)
V.	Profit/loss on cash flow hedges (effective part of the fair value changes)	(389.677)	(176.006)
VI.	Profit/loss on foreign net investment hedges(effective part of the fair value changes)	(103.826)	34.081
VII.	Effects of changes in accounting policy and adjustment of errors	-	-
VIII.	Other income and expense items accounted under shareholders' equity according to TAS	219	-
IX.	Deferred tax on valuation differences	111.834	21.704
X.	Net profit or loss accounted directly under shareholders' equity (I+II+...+IX)	(387.776)	(116.934)
XI.	Current year profit/loss	1.652.696	1.870.294
11.1	Net change in fair value of marketable securities (recycled to profit-loss)	8.172	3.745
11.2	Part of cash flow hedge derivative financial instruments reclassified and presented on the income statement	(128.422)	(38.903)
11.3	Part of foreign net investment hedges reclassified and presented on the income statement	-	-
11.4	Other	1.772.946	1.905.452
XII.	Total profit/loss related to the current period (X+XI)	1.264.920	1.753.360

The accompanying explanations and notes form an integral part of these consolidated financial statements.

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

Yapı ve Kredi Bankası A.Ş.
Consolidated statement of changes in shareholders' equity at September 30, 2010
(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

V. Consolidated statement of changes in shareholders' equity

	Note (Section five)	Paid-in capital	Adjustment to share capital	Share premium	Share cancellation profits	Legal reserves *	Status reserves	Extraordinary reserves *	Other reserves	Current period net income/ (loss)	Prior period net income/ (loss) *	Marketable securities valuation difference	Property and equipment and intangible assets revaluation fund	Bonus shares from investments	Hedging funds	Asset held for resale/ discontinued operations revaluation fund.	Total equity except minority interest	Minority Interest	To shareholde equ
September 30, 2010																			
I. Period opening balance		4.347.051	-	543.881	-	96.220	-	1.769.658	61.969	1.542.948	(37.054)	161.401	-	-	(57.195)	-	8.428.879	57.261	8.486.1
II. Changes in accounting policies according to TAS 8		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.1 Effects of errors		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Effects of the changes in accounting policies		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III. New balance (I+II)		4.347.051	-	543.881	-	96.220	-	1.769.658	61.969	1.542.948	(37.054)	161.401	-	-	(57.195)	-	8.428.879	57.261	8.486.1
Changes in the period		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IV. Increase/decrease due to merger		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
V. Marketable securities valuation differences		-	-	-	-	-	-	-	-	-	-	41.644	-	-	-	-	41.644	(167)	41.4
VI. Hedging transactions (effective portion)		-	-	-	-	-	-	-	-	-	-	-	-	-	(113.540)	-	(113.540)	-	(113.54)
3.1 Cash flow hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	(140.805)	-	(140.805)	-	(140.80)
3.2 Foreign net investment hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	27.265	-	27.265	-	27.26
VII. Property and equipment revaluation differences		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII. Intangible assets revaluation differences		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IX. Bonus shares from investments in associates, subsidiaries and joint ventures		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X. Foreign exchange differences		-	-	-	-	-	-	-	-	-	-	(44.871)	-	-	-	-	(44.871)	-	(44.87)
XI. Changes due to the disposal of assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII. Changes due to the reclassification of assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIII. Effect of the changes in equity of investment in associates		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV. Capital increase		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14.1 Cash increase		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
14.2 Internal resources		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV. Share premium		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI. Share cancellation profits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVII. Paid in-capital inflation adjustment difference		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVIII. Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIX. Current year income or loss		-	-	-	-	-	-	-	-	1.865.817	-	-	-	-	-	-	1.865.817	4.477	1.870.2
XX. Profit distribution		-	-	-	-	67.739	-	1.268.885	18.153	(1.542.948)	188.171	-	-	-	-	-	-	(693)	(69)
20.1 Dividend paid		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(693)	(69)
20.2 Transfers to reserves		-	-	-	-	67.739	-	1.268.885	18.153	(1.542.948)	188.171	-	-	-	-	-	-	-	-
20.3 Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Period end balance (III+IV+V+.....+VIII+XIX+XX)		4.347.051	-	543.881	-	163.959	-	3.038.543	80.122	1.865.817	151.117	158.174	-	-	(170.735)	-	10.177.929	60.878	10.238.8

(*) Total legal reserves and extraordinary reserves of the Parent Bank and the consolidated entities amounting to TL 380.805 and TL 3.367.865 respectively, and the share of the Parent Bank in such reserves of the subsidiaries have been presented under prior period net income / (loss).

The accompanying explanations and notes form an integral part of these consolidated financial statements.

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

Yapı ve Kredi Bankası A.Ş.

Consolidated statement of changes in shareholders' equity at September 30, 2011

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

V. Consolidated statement of changes in shareholders' equity

	Note (Section Five)	Paid-in capital	Adjustment to share capital	Share premium	Share cancellation profits	Legal reserves *	Status reserves	Extraordinary reserves *	Other reserves	Current period net income/ (loss)	Prior period net income/ (loss) *	Marketable securities valuation difference	Property and equipment and intangible assets revaluation fund	Bonus shares from investments	Hedging funds	Asset held for resale/ discontinued operations revaluation fund.	Total equity except minority interest	Minority Interest	Total shareholders' equity
September 30, 2011																			
I. Prior period-end balance		4.347.051	-	543.881	-	163.959	-	3.038.543	80.731	2.248.031	151.117	252.797	-	-	(143.436)	-	10.682.674	63.095	10.745.769
Changes in the period		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
II. Increase/decrease due to the merger		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
III. Marketable securities valuation differences		-	-	-	-	-	-	-	-	-	-	(142.036)	-	-	-	-	(142.036)	(368)	(142.404)
IV. Hedging transactions funds (effective portion)		-	-	-	-	-	-	-	-	-	-	-	-	-	(394.803)	-	(394.803)	-	(394.803)
4.1 Cash flow hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	(311.742)	-	(311.742)	-	(311.742)
4.2 Foreign net investment hedge		-	-	-	-	-	-	-	-	-	-	-	-	-	(83.061)	-	(83.061)	-	(83.061)
V. Property and equipment revaluation differences		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VI. Intangible assets revaluation differences		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VII. Bonus shares from investments in associates, subsidiaries and joint ventures		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
VIII. Foreign exchange differences		-	-	-	-	-	-	-	-	-	-	163.502	-	-	(14.290)	-	149.212	-	149.212
IX. Changes due to the disposal of assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
X. Changes due to the reclassification of assets		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XI. Effect of the changes in equity of investment in associates		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XII. Capital increase		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.1 Cash increase		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12.2 Internal resources		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIII. Share premium		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XIV. Share cancellation profits		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XV. Paid in-capital inflation adjustment difference		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
XVI. Other		-	-	-	-	-	-	-	219	-	-	-	-	-	-	-	219	-	219
XVII. Current year income or loss		-	-	-	-	-	-	-	-	1.647.682	-	-	-	-	-	-	1.647.682	5.014	1.652.696
XVIII. Profit distribution		-	-	-	-	103.014	-	1.891.585	65.691	(2.248.031)	187.741	-	-	-	-	-	-	(1.808)	(1.808)
18.1 Dividend paid		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1.808)	(1.808)
18.2 Transfers to reserves		-	-	-	-	103.014	-	1.891.585	65.691	(2.248.031)	187.741	-	-	-	-	-	-	-	-
18.3 Other		-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Period end balance (+II+III+.....+XVII+XVIII)		4.347.051	-	543.881	-	266.973	-	4.930.128	146.641	1.647.682	338.858	274.263	-	-	(552.529)	-	11.942.948	65.933	12.008.881

(*) Total legal reserves and extraordinary reserves of the Parent Bank and the consolidated entities amounting to TL 502.769 and TL 5.425.773 respectively, and the share of the Parent Bank in such reserves of the subsidiaries have been presented under prior period net income / (loss).

The accompanying explanations and notes form an integral part of these consolidated financial statements.

Yapı ve Kredi Bankası A.Ş.

Consolidated statement of cash flows at September 30, 2011 and 2010

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

VI. Consolidated statement of cash flows

	Note (Section five)	(30/09/2011)	(30/09/2010)
A. Cash flows from banking operations			
1.1 Operating profit before changes in operating assets and liabilities		1.029.150	1.782.007
1.1.1 Interest received		5.181.015	4.869.796
1.1.2 Interest paid		(2.788.737)	(2.076.609)
1.1.3 Dividend received		5.891	1.082
1.1.4 Fees and commissions received		1.779.770	1.514.598
1.1.5 Other income		341.065	(627.940)
1.1.6 Collections from previously written-off loans and other receivables		1.041.988	1.169.258
1.1.7 Payments to personnel and service suppliers		(1.965.983)	(1.779.083)
1.1.8 Taxes paid		(487.270)	(547.680)
1.1.9 Other	V-c	(2.078.589)	(741.415)
1.2 Changes in operating assets and liabilities		684.021	482.210
1.2.1 Net (increase)/decrease in trading securities		49.154	43.336
1.2.2 Net (increase)/decrease in fair value through profit/loss financial assets		-	-
1.2.3 Net (increase)/decrease in banks		(1.543.631)	370.497
1.2.4 Net (increase)/decrease in loans		(14.908.970)	(8.467.179)
1.2.5 Net (increase)/decrease in other assets		(1.586.502)	(545.160)
1.2.6 Net increase /(decrease) in bank deposits		(195.530)	65.762
1.2.7 Net increase /(decrease) in other deposits		10.758.722	5.871.632
1.2.8 Net increase /(decrease) in funds borrowed		6.361.592	1.998.001
1.2.9 Net increase /(decrease) in payables		-	-
1.2.10 Net increase /(decrease) in other liabilities	V-c	1.749.186	1.145.321
I. Net cash flows from banking operations		1.713.171	2.264.217
B. Cash flows from investing activities			
II. Net cash flows from investing activities		(323.053)	(626.621)
2.1 Cash paid for acquisition of investments in associates subsidiaries and joint ventures		-	-
2.2 Cash obtained from disposal of investments in associates subsidiaries and joint ventures		-	-
2.3 Purchases of property and equipment		(139.764)	(122.951)
2.4 Disposals of property and equipment		7.500	20.314
2.5 Purchase of investments available-for-sale		(3.182.850)	(4.811.312)
2.6 Sale of investments available-for -sale		1.315.582	2.980.497
2.7 Purchase of investment securities		(625.867)	(615.545)
2.8 Sale of investment securities		2.302.346	1.922.376
2.9 Other		-	-
C. Cash flows from financing activities			
III. Net cash flows from financing activities		2.105.732	(751.187)
3.1 Cash obtained from funds borrowed and securities issued		3.968.483	1.453.705
3.2 Cash used for repayment of funds borrowed and securities issued		(1.860.943)	(2.204.086)
3.3 Issued capital instruments		-	-
3.4 Dividends paid		(1.808)	(693)
3.5 Payments for finance leases		-	(113)
3.6 Other		-	-
IV. Effect of change in foreign exchange rates on cash and cash equivalents	V-c	636.809	(184.053)
V. Net increase in cash and cash equivalents (I+II+III+IV)		4.132.659	702.356
VI. Cash and cash equivalents at beginning of the period	V-a	6.105.032	5.047.843
VII. Cash and cash equivalents at end of the period	V-a	10.237.691	5.750.199

The accompanying explanations and notes form an integral part of these consolidated financial statements.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Section three

Explanations on accounting policies

I. Basis of presentation:

The Parent Bank maintains its books of accounts in Turkish Lira in accordance with the Banking Act No. 5411 ("Banking Act"), which is effective from November 1, 2005, the Turkish Commercial Code ("TCC") and Turkish tax legislation.

The consolidated financial statements are prepared in accordance with the "Regulation on the Principles and Procedures Regarding Banks' Accounting Applications and Safeguarding of Documents" published in the Official Gazette No. 26333 dated November 1, 2006 by the Banking Regulation and Supervision Agency ("BRSA") which refers to "Turkish Accounting Standards" ("TAS") and "Turkish Financial Reporting Standards" ("TFRS") issued by the Turkish Accounting Standards Board ("TASB") and other decrees, notes and explanations related to the accounting and financial reporting principles (all "Turkish Accounting Standards" or "TAS") published by the BRSA. The format and the details of the publicly announced consolidated financial statements and related disclosures to these statements have been prepared in accordance with the "Communiqués Related to Publicly Announced Financial Statements of Banks and Explanations and Notes Related to these Financial Statements" published in the Official Gazette No. 26430 dated February 10, 2007.

The financial statements of subsidiaries operating abroad have been prepared in accordance with legislations and regulations of the country in which they are operating, however in order to provide fair presentation according to TAS, necessary adjustments and reclassifications are reflected to those financial statements.

The consolidated financial statements have been prepared in TL, under the historical cost convention as modified in accordance with inflation adjustments applied until December 31, 2004, except for the trading and available for sale financial assets, trading and hedging derivative financial assets and financial liabilities carried at fair value. Besides, the carrying values of financial assets carried at amortised cost but subject to fair value hedge are adjusted to reflect the fair value changes related to the hedged risks.

The preparation of consolidated financial statements in conformity with TAS requires the use of certain critical accounting estimates by the Bank management to exercise its judgment on the assets and liabilities on the balance sheet and contingent issues as of the balance sheet date. These estimates are being reviewed regularly and, when necessary, suitable corrections are made and the effects of these corrections are explained in the related notes and reflected to the income statement.

The accounting policies and valuation principles applied in the preparation of interim financial statements are defined and applied in accordance with TAS and are consistent with the accounting policies applied at financial statements for the year ended December 31, 2010. TAS/TFRS changes (TFRIC 14 (Change) "Repayments of a Minimum Funding Instrument"; TAS 32 (Change), "Classification on Rights Issue"; TFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments"; TAS 24, "Related Party Disclosures", Improvements to TFRS (Published in 2010) (effective from January 1, 2011) do not have an effect on the Group's accounting policies, financial position or performance. Those accounting policies and valuation principles are explained in Notes II. to XXIX. below.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations on accounting policies (continued)

TFRS 9, "Financial Instruments" which will be compulsory for periods beginning on or after January 1, 2013, is allowed for the volunteering banks for early adoption starting as of December 31, 2010 as announced in "Change in Communiqué Related to Publicly Announced Financial Statements of Banks and Explanations and Notes Related to these Financial Statements" published in the Official Gazette numbered 27824 dated January 23, 2011. The standard which the Bank did not early adopt for 2010, will primarily have an effect on the classification and measurement of the Bank's financial assets. The Bank is currently assessing the impact of adopting TFRS 9. However, as the impact of adoption depends on the assets held by the Bank at the date of adoption itself, it is not practical or possible to quantify the effect at this stage. As of the date of these financial statements, the other TAS/TFRS standards announced but not yet effective are not expected to have significant impact on the Bank's accounting policies, financial position and performance.

Additional paragraph for convenience translation into English:

The differences between accounting principles, as described in the preceding paragraphs and accounting principles generally accepted in countries in which the accompanying consolidated financial statements are to be distributed and International Financial Reporting Standards ("IFRS") have not been quantified in these accompanying consolidated financial statements. Accordingly, the accompanying consolidated financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with the accounting principles generally accepted in such countries and IFRS.

II. Explanations on strategy of using financial instruments and foreign currency transactions:

The general strategy of the Group in using financial instruments is to sustain an optimal balance between the yield of the instruments and their risks. The most important funding source of the Group is deposits. The Group can also sustain a lengthened liability structure by using long-term foreign currency borrowings from foreign financial institutions. Funds obtained from deposits and other sources are invested in quality financial assets in order to keep currency, interest rate and liquidity risks within the limits determined by the asset-liability strategy. The currency, interest and liquidity risks of on-balance sheet and off-balance sheet assets and liabilities are managed accordingly within the risk limits accepted by the Group and the related legal limits. Derivative instruments are mainly utilised for liquidity needs and for mitigating currency and interest rate risks. The position of the Group as a result of foreign currency activities is being held at minimum levels and the currency risk exposure is followed within the determined levels by the Board of Directors by considering the limits specified by the Banking Act.

Foreign currency denominated monetary assets and liabilities are translated with the Parent Bank exchange rates prevailing at the balance sheet date. Gains and losses arising from such valuations are recognised in the income statement under the account of "Foreign exchange gains or losses", except for valuation differences arising from foreign currency subsidiaries and foreign currency non-performing loans. Since the foreign currency investments and unconsolidated subsidiaries are considered as non-monetary items, they are translated with the exchange rates at the transaction date and therefore no foreign exchange differences are realised. Foreign currency non-performing loans are translated with the exchange rates at the date of transfer to non-performing loans accounts.

The Group hedges part of the currency translation risk of net investments in foreign operations through currency borrowings. The effective portion of the foreign exchange difference of these financial liabilities is recognised in "Hedging funds" in equity.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations on accounting policies (continued)

III. Information on consolidation principles:

a. Consolidation principles applied:

The consolidated financial statements have been prepared in accordance with the procedures listed in the "Communiqué related to the Regulation on the Preparation of the Consolidated Financial Statements of Banks" published in the Official Gazette No. 26340 dated November 8, 2006 and the "Turkish Accounting Standard for Consolidated and Separate Financial Statements" ("TAS 27").

1. Consolidation principles of subsidiaries:

Subsidiaries (including special purpose entity), in which Group has power to control the financial and operating policies for the benefit of the Parent Bank, either (a) through the power to exercise more than 50% of the voting rights relating to shares in the companies owned directly and indirectly by itself; or (b) although not having the power to exercise more than 50% of the voting rights, otherwise having the power to exercise control over the financial and operating policies, have been fully consolidated.

Control is evident when the Parent Bank owns, either directly or indirectly, the majority of the share capital of the company or owns the privileged shares or owns the right of controlling the operations of the company in accordance with the agreements made with other shareholders or owns the right of appointment or the designation of the majority of the board of directors of the company.

Subsidiaries are consolidated with full consolidation method by considering the results of their activities and the size of their assets and shareholders' equity. Financial statements of the related subsidiaries are included in the consolidated financial statements from the date control is transferred to the Group and they are taken out of consolidation scope when control no longer exists. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

In accordance with the full consolidation method, balance sheet, income statement and off balance sheet items of the subsidiaries have been consolidated line by line with the balance sheet, income statement and off balance sheet of the Parent Bank. The book value of the investments of the Group in each subsidiary has been netted off with the portion of each subsidiary's capital that belongs to the Group. Unrealized gains and losses and balances resulting from the transactions among the entities included in consolidation have been eliminated. In the consolidated balance sheet and income statement, minority interest has been presented separately from the shares of the Group shareholders.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations on accounting policies (continued)

The subsidiaries included in consolidation, their title, their place of incorporation, their main activities and their effective shareholding rates are as follows:

Title	Incorporation (City/ Country)	Main activities	Effective rates (%) September 30, 2011	Direct and indirect rates (%) September 30, 2011
Yapı Kredi Sigorta A.Ş.	Istanbul/Turkey	Insurance	93,94	93,94
Yapı Kredi Emeklilik A.Ş.	Istanbul/Turkey	Insurance	93,94	100,00
Yapı Kredi Leasing	Istanbul/Turkey	Leasing	98,85	98,85
Yapı Kredi Faktoring	Istanbul/Turkey	Factoring	99,96	99,96
Yapı Kredi Menkul	Istanbul/Turkey	Investment Management	99,98	99,98
Yapı Kredi B tipi Yatırım Ortaklığı A.Ş.	Istanbul/Turkey	Portfolio Management	56,06	56,07
Yapı Kredi Portföy	Istanbul/Turkey	Portfolio Management	99,95	99,97
Yapı Kredi Holding B.V.	Amsterdam/Netherlands	Financial Holding	100,00	100,00
Yapı Kredi Bank N.V.	Amsterdam/Netherlands	Banking	100,00	100,00
Yapı Kredi Bank Moscow	Moscow/Russia	Banking	100,00	100,00
Yapı Kredi Azerbaijan	Baku /Azerbaijan	Banking	100,00	100,00
Stiching Custody Services YKB	Amsterdam/Netherlands	Custody services	100,00	100,00
Yapı Kredi Invest LLC	Baku/Azerbaijan	Portfolio Management	100,00	100,00
Yapı Kredi Diversified Payment Rights Finance Company ⁽¹⁾	George Town/ Cayman Islands	Special Purpose Company	-	-

(1) It is a special purpose entity established for securitization transactions and is included in the consolidation although it is not a subsidiary of the Bank.

2. Consolidation principles of associates:

The associate is an entity in which the Parent Bank participates in its capital and has significant influence on it although the Parent Bank has no capital or management control, whose main operation is banking and which operates according to special legislation with permission and license and is established abroad. The related associate is consolidated with equity method.

Significant influence refers to the participation power on the constitution of the financial and management policies of the participated associate. If the Parent Bank has 10% or more voting right on the associate, unless proved otherwise, it is assumed that the Parent Bank has significant influence on that associate.

Equity method is an accounting method which foresees the increase or decrease of the book value of capital share in an associate from the changes in the participated associate's shareholders' equity during the period attributable to the portion of the investor and the deduction of the dividend received from the associate from the revised value of the associate amount.

The associates included in consolidation, their title, their place of incorporation, their main activities and their effective shareholding rates are as follows:

Title	(City/ Country)	Main activities	Effective rates September 30, 2011	Direct and indirect rates September 30, 2011
Banque de Commerce et de Placements S.A.	Geneva/ Switzerland	Banking	30,67	30,67

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations on accounting policies (continued)

3. Consolidation principles of joint ventures:

The joint venture is an entity in which the Parent Bank participates in its capital and has joint control and whose main operation is real estate investment trust ("GYO") and operates according to special legislation with permission and license and is established in Turkey. The related joint venture is consolidated with equity method in accordance with materiality principle.

Equity method is an accounting method which foresees the increase or decrease of the book value of capital share in a joint venture from the changes in the participated joint venture's shareholders' equity during the period attributable to the portion of the investor and the deduction of the dividend received from the associate from the revised value of the associate amount.

The joint venture included in consolidation, its title, its place of incorporation, main activities and effective shareholding rates are as follows:

Title	(City/ Country)	Main activities	Effective rates (%)	Direct and indirect rates (%)
			September 30, 2011	September 30, 2011
Yapı Kredi Koray Gayrimenkul Yatırım Ortaklığı A.Ş.	İstanbul/Turkey	GYO	30,45	30,45

4. Principles applied during share transfer, merger and acquisition:

It is explained in more detail in Note VI. of Section Five.

5. Transactions with minority shareholders:

The Group applies a policy of treating transactions with minority interests as transactions within the Group. The difference between the acquisition cost and net asset acquired is recognised under equity. Disposals from minority interests are also considered as equity transactions and result in changes in the equity of the Group.

b. Presentation of unconsolidated subsidiaries, associates and joint ventures in consolidated financial statements:

Turkish Lira denominated unconsolidated associates, subsidiaries and joint ventures are accounted for at cost value, less any impairment, in accordance with "Turkish Accounting Standards for Consolidated and Unconsolidated Financial Statements" ("TAS 27") in the consolidated financial statements.

Foreign currency denominated unconsolidated associates, subsidiaries and joint ventures are booked at their original foreign currency costs translated into Turkish Lira using the exchange rates prevailing at the transaction date less impairment, if any.

When the cost of associates, subsidiaries and joint ventures is higher than the net realizable value, the carrying amount is reduced to the net realizable or fair value considering whether the value decrease is temporary or permanent and the ratio of the value decrease.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations on accounting policies (continued)

IV. Explanations on forward and options contracts and derivative instruments:

The Group's derivative transactions mostly include foreign currency money and interest rate swaps, forward foreign exchange purchase and sale transactions and options.

Derivative instruments are measured at fair value on initial recognition and subsequently re-measured at their fair values. As a result, the fair values of derivatives are reflected as net liability or net asset on a contract by contract basis. The accounting method of the income or loss arising from derivative instruments depends on whether the derivative is being used for hedging purposes or not and depends on the type of item being hedged.

At the transaction date, the Group documents the relationship between hedging instruments and hedged items, together with the risk management policies and the strategies on hedging transactions. Besides, the Group regularly documents the effectiveness of the hedging instruments in offsetting the changes in the fair value of the hedged items.

Changes in the fair value of derivative instruments subject to fair value hedges are recognised under profit or loss accounts together with the variation in the fair value of hedged items. The changes of fair value of derivative transactions for fair value hedge are classified in "Derivative Financial Transactions Gains/Losses" account. In the balance sheet, changes in the fair value of hedged assets and liabilities, during the period in which the hedge is effective, are shown with the related assets and liabilities. If the underlying hedge does not conform to the hedge accounting requirements, the adjustments made to the carrying value (amortised cost) of the hedged item are amortized with the straight line method within the time to maturity and recognized under the profit and loss accounts.

The Parent Bank hedges its cash flow risk arising from foreign currency and Turkish Lira floating interest rate liabilities by using interest rate swaps. The effective portion of the fair value changes of the hedging instruments within this context are recorded in "Hedging funds" under shareholders' equity. These funds are transferred to profit or loss from equity when the cash flows of the hedged items (interest expense) impact the income statement.

In case the cash flow hedge accounting is discontinued due to the expiry, realization for sale of the hedging instrument, or due to the results of the effectiveness test the amounts accounted under shareholders' equity are transferred to the profit and loss accounts as these cash flows of the hedged item are realized.

Certain derivative transactions, even though they provide effective economic hedges under the Group's risk management policy, do not qualify for hedge accounting under the specific rules in "Turkish Accounting Standard for Financial Instruments: Recognition and Measurement ("TAS 39")" and are therefore treated as "financial instruments at fair value through profit or loss".

"Financial instruments at fair value through profit or loss" are measured at fair value. If the fair value of derivative financial instruments is positive, it is disclosed under the main account "financial assets at fair value through profit or loss" in "derivative financial assets held for trading" and if the fair value difference is negative, it is disclosed under "derivative financial liabilities held for trading". Fair value changes are recorded under "Derivative Financial Transactions Gains/(Losses)" in the income statement.

The fair values of the derivative financial instruments are calculated using quoted market prices or by using discounted cash flow models.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations on accounting policies (continued)

Options in the Bank's portfolio are valued on a daily basis. Parameters vary according to the type of option (barrier/digital etc.).

Liabilities and receivables arising from the derivative instruments are followed in the off-balance sheet accounts as their contractual values. Embedded derivatives are separated from the host contract and accounted as derivative instruments according to TAS 39; in case, (i) the related embedded derivative's economic features and risks are not closely related to the host contract, (ii) another instrument that has the same contract conditions with the embedded derivative satisfies the definition of a derivative instrument and (iii) the hybrid instrument is not carried at fair value through profit or loss.

Credit derivatives are capital market tools designed to transfer credit risk from one party to another.

As of September 30, 2011, the Bank's credit derivatives portfolio included in the off-balance sheet accounts is composed of credit linked notes (embedded derivatives are separated from host contract in line with TAS 39 and recorded as credit default swaps) and credit default swaps.

Credit default swaps are the contracts, in which the seller commits to pay the contract value to the buyer in cases of certain credit risk events in return for the premium paid by the buyer for the contract.

As of September 30, 2011 credit derivative portfolio included in the off balance sheet is composed of credit default swaps arising from direct protection sale and credit linked notes. Credit linked notes are bonds that have repayments depending on a credit event or the credit risk evaluation of a reference asset or asset pool. Depending on whether the reference assets are included in the balance sheet of the issuer or the owner of the assets, these transactions can be accounted by the party assuming the credit risk as insurance or as an embedded derivative. As per the Bank's management evaluation, the embedded derivatives included in the credit linked notes are separated from the host contracts in accordance with TAS 39 and recorded and evaluated as credit default swaps. The bond itself (host contract) is fair valued using the valuation model adopted by the Bank. Credit default swaps are contracts, in which the seller commits to pay the contract value to the buyer in cases of certain credit risk events in return for the premium paid by the buyer for the contract.

Credit default swaps are valued daily by the valuation model of the Bank and then accounted over their fair values while credit linked notes are valued and accounted monthly.

Market risks of these products are monitored using the Bank's internal modelling system for the Value-at-Risk and basis points sensitivity analysis; the liquidity risks are monitored using the short term liquidity report on daily and the long term liquidity report on monthly basis.

According to the regulations of BRSA, those currency exchange transactions realized at value date in the initial phase of currency swaps are recorded and followed as irrevocable commitments in off-balance sheet accounts until the value date.

V. Explanations on interest income and expense:

Interest income and expenses are recognised in the income statement on an accrual basis by using the effective interest method periodically. The Group ceases accruing interest income on non-performing loans and, any interest income accruals from such receivables are reversed and no income is accounted until the collection is made according to the related regulation.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations on accounting policies (continued)

VI. Explanations on fee and commission income and expenses:

All fees and commission income/expenses are recognized on an accrual basis, certain commission income and fees from various banking services are recorded as income at the time of realization. Loan related fees and commissions paid to or received from the other institutions are considered as transaction costs and accounted using the effective interest method. Contract-based fees or fees received in return for services like the purchase and sale of assets on behalf of a third party are recognized as income at the time of collection.

VII. Explanations on financial assets:

The Group classifies and accounts its financial assets as "fair value through profit or loss", "available-for-sale", "loans and receivables" or "held-to-maturity". The appropriate classification of financial assets of the Bank is determined at the time of purchase by the Group management, taking into consideration the purpose of holding the investment. Regular purchases and sales of financial assets are recorded based on settlement date. Settlement date of a financial asset is the date that the asset is received or delivered by the Group. Settlement date accounting requires; (a) accounting for the financial asset when the asset is received and (b) accounting of disposal of the financial asset and recording the related profit and loss when the asset is delivered. The fair value changes of an asset to be acquired between the trade date and settlement date is accounted in the same manner as acquired assets.

a. Financial assets at fair value through profit or loss:

Financial assets, which are classified as "financial assets at fair value through profit or loss", are trading financial assets and are either acquired for generating profit from short-term fluctuations in the price or dealer's margin, or are financial assets included in a portfolio in which a pattern of short-term profit making exists independent from the acquisition purpose.

Trading financial assets are initially recognized at fair value and are subsequently re-measured at their fair value. However, if fair values cannot be obtained from active market transactions, it is assumed that the fair value cannot be measured reliably and fair values are calculated by alternative models. All gains and losses arising from these valuations are recognized in the income statement. Interest earned while holding financial assets is reported as interest income and dividends received are included separately in dividend income.

Derivative financial instruments are treated as trading financial assets unless they are designated as hedge instruments. The principles regarding the accounting of derivative financial instruments are explained in detail in Note IV. of this section.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations on accounting policies (continued)

b. Held-to-maturity financial assets:

Held-to-maturity financial assets are non-derivative financial assets other than loans and receivables, with fixed maturities and fixed or determinable payments where management has the intent and ability to hold the financial assets to maturity and that are not initially classified as financial assets at fair value through profit/loss or available for sale. Held-to-maturity financial assets are initially recognized at cost plus transaction costs. Held-to-maturity securities are carried at "amortized cost" using the "effective interest method" after their initial recognition. Interest income related with held-to-maturity securities is recorded in "Interest income" and impairment arising from a decrease in cost or revalued amounts is recorded in "Provision for impairment of loans and other receivables" accounts.

There are no financial assets that were previously classified as held-to-maturity but cannot be subject to this classification for two years due to breach of classification principles.

c. Loans and receivables:

Loans and receivables are non-derivative financial assets that are not quoted in a market or classified as held for trading, at fair value through profit or loss or available for sale, and which have fixed or determinable payments. Loans and receivables are recognized initially at cost including transaction costs (which reflect fair values) and subsequently carried at the amortized cost using the "effective interest method". The expenses incurred for the assets received as collateral are not considered as transaction costs and are recognized in the expense accounts.

The Parent bank provides general and specific provisions based on the assessments and estimates of the management, by considering the "Communiqué Related to Principles and Procedures on Determining the Qualifications of Banks' Loans and Other Receivables and the Provision for These Loans and Other Receivables" published in the Official Gazette No. 26333 dated November 1, 2006. In this context, the management estimates are determined, on the basis of the prudence principle and Bank credit risk policies, considering the general structure of the loan portfolio, the financial conditions of the customers, non-financial information and the economic conjuncture. General provisions are determined in accordance with the "incurred loss" model taking into consideration the factors listed above and the principles of TAS 39. The parameters of the incurred loss model are reviewed regularly and the effects of the changes are reflected in the income statement accordingly. The general loan loss provision determined through this methodology is higher than the minimum amount required by the related regulations.

Provision expenses are deducted from the net income of the year. If there is a subsequent collection from a receivable that was already provisioned in previous years, the recovery amount is classified under "other operating income". Uncollectible receivables are written-off after all the legal procedures are finalized.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations on accounting policies (continued)

d. Available-for-sale financial assets:

Available-for-sale financial assets are defined as financial assets other than the ones classified as "loans and receivables", "held-to-maturity assets" or "financial asset at fair value through profit or loss".

Available-for-sale financial assets are subsequently re-measured at fair value. When fair values based on market prices cannot be obtained reliably, the available-for-sale financial assets are carried at fair values determined by using alternative models. Available for sale equity securities which are not quoted in a market and the fair values of which can not be determined reliably, are carried at cost less any impairment. "Unrealized gains and losses" arising from changes in the fair value of financial assets classified as available-for-sale are recognized in the shareholders' equity as "Marketable securities valuation differences", until the related assets are impaired or disposed. When these financial assets are disposed or impaired, the related fair value differences accumulated in the shareholders' equity are transferred to the income statement. Interest and dividends received from available for sale assets are recorded in interest income and dividend income as appropriate.

VIII. Explanations on impairment of financial assets:

The existence of objective evidence whether a financial asset or group of financial assets is impaired, is assessed at each balance sheet date. If such evidence exists, impairment provision is provided based on the financial assets classification.

Impairment for held to maturity financial assets carried at amortized cost is calculated as the difference between the expected future cash flows discounted at the effective interest rate method and the carrying value.

The impairment amount transferred from shareholders' equity to profit or loss for available for sale securities is calculated as a the difference between the purchase cost (after deduction of principal repayment and redemption) and the fair value less any impairment that was previously recorded in profit or loss. This amount is recorded in expense accounts in accordance with the Uniform Chart of Accounts ("UCA").

The principles for the accounting of provisions for loans and receivables are explained in Note VII. of this section.

IX. Explanations on offsetting financial assets:

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Group has a legally enforceable right to offset the recognised amounts and there is an intention to collect/pay related financial assets and liabilities on a net basis, or to realise the asset and settle the liability simultaneously.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations on accounting policies (continued)

X. Explanations on sales and repurchase agreements and securities lending transactions:

Securities subject to repurchase agreements ("repos") are classified as "at fair value through profit or loss", "available-for-sale" and "held-to-maturity" according to the investment purposes of the Group and measured according to the portfolio to which they belong. Funds obtained from repurchase agreements are accounted under "funds provided under repurchase agreements" in liabilities and the difference between the sale and repurchase price is accrued over the life of repurchase agreements using the "effective interest method". Interest expense on repo transactions are recorded under "interest expense on money market transactions" in the income statement.

Funds given against securities purchased under agreements to resell ("reverse repo") are accounted under "receivables from reverse repurchase agreements" on the balance sheet. The difference between the purchase and determined resell price is accrued over the life of repurchase agreements using the effective interest method.

The Group has no securities lending transactions.

XI. Information on assets held for resale and related to discontinued operations and explanations on liabilities related with these assets:

According to the TFRS 5, a tangible asset (or a group of assets to be disposed) classified as "asset held for resale" is measured at lower of carrying value and fair value less costs to sell. An asset (or a group of assets to be disposed) is regarded as "asset held for sale" only when the sale is highly probable and the asset (or a group of assets to be disposed) is available for immediate sale in its present condition. For a highly probable sale, there must be a valid plan prepared by the management for the sale of asset including identification of possible buyers and completion of sale process. Furthermore, the asset should be actively in the market at a price consistent with its fair value.

Additionally, assets that were acquired due to non-performing receivables are accounted in the financial statements in accordance with the "Communiqué Regarding the Principles and Procedures for the Disposals of Immovables and Commodities Acquired due to Receivables and for Trading of Precious Metal" published in the Official Gazette dated November 1, 2006, No. 26333 and classified as assets held for resale.

A discontinued operation is a part of the Group's business classified as sold or held for sale. The operating results of the discontinued operations are disclosed separately in the income statement.

The Group has no discontinued operations.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations on accounting policies (continued)

XII. Explanations on goodwill and other intangible assets:

a. Goodwill:

The excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets, liabilities or contingent liabilities of the acquired subsidiary at the date of acquisition of the control is recorded as goodwill and represents a payment made by the acquirer in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognised. The acquirer also recognises assets that are capable of being individually identified and separately recognised, intangible assets (e.g. credit card brand value, deposit base and customer portfolio) and contingent liabilities at fair value, irrespective of whether the asset had been recognised by the acquiree before the business combination, if can be distinguished from the goodwill and if the asset's fair value can be measured reliably.

In line with "Turkish Financial Reporting Standard for Business Combinations" ("TFRS 3"), the goodwill is not subject to amortisation but is tested annually or more frequently for impairment and carried at cost less accumulated impairment losses, if any, in line with "Turkish Accounting Standard for Impairment on Assets" ("TAS 36").

b. Other intangible assets:

Intangible assets are measured at cost on initial recognition and any directly attributable costs of setting the asset to work for its intended use are included in the initial measurement. Subsequently, intangible assets are carried at historical costs after the deduction of accumulated amortisation and the provision for impairment.

The Group evaluates the possibility of existence of impairment of other intangible assets at the end of each reporting period. If there is an evidence of impairment, the Group estimates the recoverable amount. The recoverable amount is the higher of net sales price or the value in use. When the book value of another intangible asset exceeds the recoverable amount, the related asset is considered to be impaired. If there is no evidence of impairment, there is no need to estimate the recoverable amount.

Intangibles are amortised over their estimated useful lives using the straight-line method. The useful life of the asset is determined by assessing the expected useful life of the asset, technical, technological and other kinds of obsolescence and all required maintenance expenses necessary to utilise the economic benefit from the asset. The rates used are presented below:

Credit card brand value, deposit base and customer portfolio	10%
Other intangible assets	20%

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations on accounting policies (continued)

XIII. Explanations on property and equipment:

Property and equipment is measured at its cost when initially recognised and any directly attributable costs of setting the asset in working order for its intended use are included in the initial measurement. Subsequently, property and equipment are carried at cost less accumulated depreciation and provision for impairment.

Depreciation is calculated over the cost of property and equipment using the straight-line method. The rates used are stated below:

Buildings	2%
Movables, movables acquired under financial leasing	20%

The depreciation charge for items remaining in property and equipment for less than a full accounting period at the balance sheet date is calculated in proportion to the period the item remained in property and equipment.

Where the carrying amount of an asset is greater than its estimated "recoverable amount", it is written down to its "recoverable amount" and the provision for impairment is charged to the income statement.

Property and equipment have not been re-valued in order to be presented at fair value in the financial statements.

Gains and losses on the disposal of property and equipment are determined by deducting the net book value of the property and equipment from its sales proceeds.

Expenditures for the repair and maintenance of property and equipment are recognised as expense. The capital expenditures made in order to increase the capacity of the tangible asset or to increase its future benefits are capitalised on the cost of the tangible asset. The capital expenditures include the cost components which are used either to increase the useful life or the capacity of the asset or the quality of the product or to decrease the costs.

XIV. Explanations on leasing transactions:

The Group performs financial and operational leasing in the capacity of the lessee and lessor.

a. Accounting of leasing operations according to lessee:

Financial lease

The Group includes the lower of the market value of the fixed asset subject to financial leasing in the beginning of the financial leasing period or present value of the lease payments in property and equipment and records the liabilities arising from financial leasing in liabilities. Financing costs arising due to leasing are spread through the lease period forming a fixed interest rate. In addition, fixed assets that are obtained by the way of financial leasing are subject to depreciation based on their useful lives. If a decrease in the value of fixed assets that are subject to financial leasing is noticed, impairment provision is recognised. The liabilities arising from the financial leasing contracts are accounted under "financial lease payables". Expenses arising from interest and exchange rate changes related to financial leasing liabilities are charged to the income statement. Lease payments are deducted from financial leasing payables.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations on accounting policies (continued)

Operational lease

Leases, in which the majority of risk and return of property belongs to lessor, are classified as operational lease. Payments that are made under operational leases are accounted in income statements on a straight line basis during the lease period.

b. Accounting of leasing operations according to lessor:

Assets that are subject to financial leasing are reflected as a receivable equal to the net leasing amount in consolidated balance sheet. Interest income is earned to form a fixed periodical interest rate on net investment amount of the related leased asset by the lessor and the portion relating to subsequent periods is followed in the unearned interest income account.

XV. Explanations on provisions and contingent asset and liabilities:

Provisions and contingent liabilities, except for the specific and general provisions recognised for loans and other receivables, are accounted in accordance with the "Turkish Accounting Standard for Provisions, Contingent Liabilities and Contingent Assets" ("TAS 37").

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions for contingent liabilities arisen from past events are recognised in the period of occurrence in accordance with the "matching principle". A provision is recognised when it is probable that the contingent event will occur and a reliable estimate can be made. When a reliable estimate of the amount of obligation cannot be made, or it is not probable that an outflow of resources will be required to settle the obligation, it is considered that a "contingent" liability exists and it is disclosed in the related notes to the financial statements.

Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the entity. Contingent assets are not recognized in financial statements since this may result in the recognition of income that may never be realized. Contingent assets are disclosed where an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements of the period in which the change occurs.

XVI. Explanations on obligations related to employee rights:

a. Employee termination benefits

Obligations related to employee termination and vacation rights are accounted for in accordance with "Turkish Accounting Standard for Employee Rights" ("TAS 19") and are classified under "Reserve for employee rights" account in the balance sheet.

Under the Turkish Labour Law, the Group is required to pay a specific amount to the employees who have retired or whose employment is terminated other than for the reasons specified in the Turkish Labour Law. The reserve for employment termination benefits represents the present value of the estimated total liability for the future probable obligation of the Group determined by using certain actuarial assumptions.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations on accounting policies (continued)

b. Pension rights

The Parent Bank's personnel are members of the Yapı ve Kredi Bankası Anonim Şirketi Mensupları Yardım ve Emekli Sandığı Vakfı ("the Fund") which was established in accordance with the 20th temporary article of the Social Security Law No. 506. The technical financial statements of the Fund are audited in accordance with the Article 38 of the Insurance Supervision Law and the "Regulation Regarding the Actuaries" by a registered independent actuary.

Temporary article 23 paragraph one of the Banking Act published in the Official Gazette No 25983 dated November 1, 2005 stated that foundations like the Fund are to be transferred to the Social Security Institution ("SSI") within three years beginning from the publication date of the article.

The article of the Law related to the transfer was cancelled (pursuant to the application by the President on November 2, 2005) by the decision of Constitutional Court (decision no: E.2005/39, K. 2007/33 dated March 22, 2007) published in the Official Gazette No. 26479 dated March 31, 2007, and the effect of the law article was suspended from the date of the publication of the decision.

The reasoning of the Constitutional Court regarding the abrogation of the corresponding article was published in the Official Gazette dated December 15, 2007, No. 26372. With the publication of the reasoning of the decision, the Grand National Assembly of Turkey ("GNAT") started to work on new legal arrangements regarding the transfer of the fund members to SSI and the related articles of the "Law Regarding the Changes in Social Insurance and General Health Insurance Law and Other Related Laws and Regulations" No. 5754 ("the New Law") regulating the transfer of the funds were approved by the GNAT on April 17, 2008. The New Law was published in the Official Gazette dated May 8, 2008, No. 26870 and came into force. With the new law, the Banks' pension funds will be transferred to SSI within three years from the date of publication of the decree and this period can be extended for a maximum of two years with the decision of the Council of Ministers. The transfer period is extended for another two years with the decision of the Council of Ministers No. 2011/1559 published in the Official Gazette dated April 9, 2011.

A commission whose members are the representatives of the SSI, the Ministry of Finance, Turkish Treasury, State Planning Organization, BRSA, Saving Deposit Insurance Fund ("SDIF"), one member representing the Fund and one member representing the Fund members is in charge of the calculation of the value of the payment that would need to be made to SSI to settle the obligation using a technical interest rate of 9,8% taking into consideration income and expenses by insurance branches of the funds and the excess of salaries and income paid by the funds over the salaries and income to be paid in accordance with the SSI arrangements related to the members of the Fund as of the date of the transfer including the members who have left the scheme.

In accordance with the New Law, after the transfer to SSI, any social rights and payments to Fund members and their beneficiaries which are not provided although they are included in the Fund Title Deed will continue to be provided by the Fund and the employers of the Fund members.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations on accounting policies (continued)

The main opposition party has applied to the Constitutional Court at June 19, 2008 for cancellation of some articles and requested them to be ineffective until the case of abrogation is finalized. The Constitutional Court announced that it has rejected the cancellation request with the decision taken in the meeting dated March 30, 2011. The decision with reasoning is not yet published in the Official Gazette. The Bank accounts for a provision for the technical deficit based on the report prepared by a registered actuary in accordance with the rates determined by the New Law

c. Defined contribution plans:

The Group is required to pay certain contributions to the Social Security Institution on behalf of their employees. Other than these payments, the Group does not have any further obligation in this respect. Such premiums are charged to personnel expenses when incurred.

d. Short term benefits of employee:

According to TAS 19, liabilities derived from unused vacation pay defined in "Short term benefits of employee" are accrued in the period in which they are realized and are not discounted.

XVII. Explanations on taxation:

a. Current tax:

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

The corporate tax rate in Turkey is 20% and it is calculated on the total income after adjusting for certain disallowable expenses, exempt income and other allowances. No further tax is payable unless the profit is distributed.

Dividends paid to non-resident corporations, which have a place of business in Turkey or to resident corporations, are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%. An increase in capital via issuing bonus shares is not considered as profit distribution and no withholding tax incurs in such a case.

Corporations are required to pay advance corporate tax quarterly at a rate of 20% on their corporate income. Advance tax is declared by the 14th and paid by the 17th day of the second month following each calendar quarter end. Advance tax paid by corporations for the current period is credited against the annual corporation tax calculated on the annual corporate income in the following year. Despite the offset, if there is temporary prepaid tax remaining, this balance can be refunded or used to offset any other financial liabilities to the government.

A 75% portion of the capital gains derived from the sale of equity investments and immovable properties held for at least two years is tax exempt, if such gains are added to paid-in capital or held in a special account under shareholder's equity for five years.

Under the Turkish Corporate Tax Law, losses can be carried forward to offset against future taxable income for up to five years. Losses cannot be carried back to offset profits from previous periods.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations on accounting policies (continued)

Under the Turkish Corporate Tax Law, effective from April 24, 2003, investment allowances had provided a deduction from the corporate tax base of 40% of the purchase price of purchases of the brand new fixed assets having economic useful life and exceeding TL 10 and directly related with the production of goods and services and investment allowance that arose prior to April 24, 2003 had been taxed at 19,8% (withholding tax) unless they had been converted to new type at companies' will. Effective from January 1, 2006, Turkish government had ceased to offer investment incentives for capital investments and companies having unused qualifying capital investment amounts as of June 30, 2006 would be able to deduct such amounts from corporate income until the end of December 31, 2008. However, On October 15, 2009, the Ministry of Finance announced that the Turkish Constitutional Court ("TCC") resolved to annul the provision numbered 69 of the Income Tax Law regulating that investment incentives carried forward can only be deducted from the corporate profits of 2006, 2007 and 2008, thus allowing such deduction for unlimited time. The resolution is published in the official gazette dated January 8, 2010. As per the Law numbered 6009, taxpayers are permitted to deduct the investment incentive amount to a limit that does not exceed 25% of the related revenues (within the context of December 31, 2005 legislation including the provision on tax rate stated in the second paragraph of temporary Article 61 of income tax legislation) from their income subject to tax.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Tax returns are required to be filled and delivered to the related tax office until the evening of the 25th of the fourth month following the balance sheet date and the accrued tax is paid until the end of the same month. Tax returns are open for 5 years from the beginning of the year following the balance sheet date and during this period 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.

Tax rates that are used in tax calculations by foreign subsidiaries by taking current tax regulations in their countries into consideration as of September 30, 2011 are as follows:

Netherlands	25,50%
Russia	20,00%
Azerbaijan	20,00%

b. Deferred tax:

The Group calculates and accounts for deferred income taxes for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in these financial statements in accordance with "Turkish Accounting Standard for Income Taxes" ("TAS 12") and in accordance with BRSA's explanations and circulars and the tax legislation, the Group calculates deferred tax on temporary differences except for general loan loss provisions, to the extent that future taxable income is estimated to be available. In the deferred tax calculation, the enacted tax rate, in accordance with the tax legislation, is used as of the balance sheet date.

Deferred tax liabilities are recognized for all resulting temporary differences whereas deferred tax assets resulting from temporary differences are recognized to the extent that future taxable profit will be available against which the deferred tax asset can be utilised.

Deferred tax assets and liabilities of subsidiaries subject to consolidation have been netted off in their standalone financial statements in accordance with TAS12. The deferred tax asset and deferred tax liability are presented as separate in these financial statements.

Tax effects of the transactions that are directly accounted under equity are also reflected to equity.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations on accounting policies (continued)

c. Transfer pricing:

The article no.13 of the Corporate Tax Law No.5520 describes the issue of transfer pricing under the title of "disguised profit distribution" by way of transfer pricing (previously included as "disguised profit" in the Corporate Tax Law No.5422). "The General Communiqué on Disguised Profit Distribution by Way of Transfer Pricing" published at November 18, 2007, explains the application related issues on this topic effective from January 1, 2007, also taking into account the regulations in Article 41 of the Income Tax Law.

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 discussed in the relevant 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.

XVIII. Explanations on borrowings:

Trading and derivative financial liabilities are valued with their fair values and the other financial liabilities are carried at "amortised cost" using the "effective interest method".

The Parent Bank utilises various hedging techniques to minimise the currency, interest rate and liquidity risks of its financial liabilities. No convertible bonds have been issued.

Also, the Bank has started to obtain funds by issuing bonds at the current period.

XIX. Explanations on issuance of share certificates:

At capital increases, the Parent Bank accounts for the difference between the issued value and nominal value as share premium under shareholders' equity, in cases where the issued value is higher than the nominal value.

No dividend payments of the Parent Bank were announced after the balance sheet date.

XX. Explanations on avalized drafts and letter of acceptances:

Avalized drafts and acceptances are included in the "off-balance sheet commitments".

XXI. Explanations on government grants:

In accordance with the related articles of the "Law Regarding the Supporting of Research and Development Activities" numbered 5746, until September 30,2011 the Group received government grant from TÜBİTAK amounting to TL 828 (December 31, 2010 - TL 609).

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations on accounting policies (continued)

XXII. Profit reserves and profit distribution:

Retained earnings as per the statutory financial statements other than legal reserves are available for distribution, subject to the legal reserve requirement referred to below. Legal reserves consist of first and second reserves as foreseen in the TCC. The TCC specifies that the first legal reserve is appropriated at the rate of 5% until the total reserve is equal to 20% of paid-in capital and that the second legal reserve is appropriated at the rate of 10% of distributions in excess of 5% of paid-in capital; however holding companies are not subject to this application. According to the Turkish Commercial Code, legal reserves can only be used to compensate for accumulated losses and cannot be used for other purposes unless they exceed 50% of paid-in capital.

XXIII. Earnings per share:

Earnings per share disclosed in the income statement are calculated by dividing net profit for the year to the weighted average number of shares outstanding during the period concerned.

	September 30, 2011	September 30, 2010
Group's profit	1.647.682	1.865.817
Weighted average number of issued ordinary shares (thousand)	434.705.128	434.705.128
Earnings per share (disclosed in full TL)	0,0038	0,0043

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings. These bonus shares are treated as issued shares in earnings per share computations. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the year is adjusted in respect of bonus shares issued without a corresponding change in resources by giving them a retroactive effect. In case bonus shares are distributed after the balance sheet date but before the preparation of the financial statements, earnings per share is calculated considering the new number of shares.

No bonus shares were issued during 2011. (December 31, 2010 - no bonus shares were issued).

XXIV. Related parties:

For the purpose of these financial statements, shareholders, having control shares of the Bank, key management personnel and board members together with their families and companies controlled by/affiliated with them, associated companies and joint ventures and the Fund providing post employment benefits are considered and referred to as related parties in accordance with "Turkish Accounting Standard for Related Parties" ("TAS 24"). The transactions with related parties are disclosed in detail in Note VII. of Section Five.

XXV. Cash and cash equivalents:

For the purposes of the cash flow statement, "Cash" includes cash, effectives, cash in transit, purchased cheques and demand deposits including balances with the Central Bank; and "Cash equivalents" include money market placements and time deposits at banks with original maturity periods of less than three months.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations on accounting policies (continued)

XXVI. Operating segments:

Information about operating segments which are determined in line with "Turkish Financial Reporting Standard about Operating Segments" ("TFRS 8") together with organizational and internal reporting structure of the Bank, are disclosed in Note VII. of Section Four.

XXVII. Reclassifications:

Reclassifications have been made on comparative figures as of December 31, 2010 and September 30, 2010, to conform to changes in presentation in the September 30, 2011 financials.

XXVIII. Legal mergers under common control:

As in TFRS 3 or in another standard in TFRS there is an absence of treatment that specifically applies to business combinations involving entities under common control, by examining the practices included in the generally accepted global accounting standards the Group decided to apply an accounting policy in parallel with the "pooling of interests" method in view of its judgement that the economic substance of the relevant transaction will be most reliably and accurately reflected in this manner. In the accounting of business combinations which occur under common control, assets and liabilities, subject to business combinations, are accounted for in the consolidated financial statements at their carrying values. Income statements are consolidated as of the beginning of the financial year in which the business combinations occurred. Financial statements belonging to previous periods also are adjusted in the same way in order to ensure the comparability. As a result of those transactions, any goodwill or negative goodwill is not calculated. The difference between the investment amount and the share in capital in the acquired company is directly accounted under equity as "the effect of legal mergers under common control".

XXIX. Other accounting policies:

Premium income of insurance companies is recognised by deducting the ceded premium of reinsurance over written risk premiums.

Claims are booked as expense when reported and paid. Reserve for Outstanding Claims is set aside for the ultimate cost of the claims incurred, but not paid in the current or previous periods or, for the estimated ultimate cost if the cost is not yet certain, and for the incurred but not reported claims. Reinsurance share of outstanding and paid claims is netted off in mentioned reserves.

Explanations related to insurance technical reserves

Insurance companies, according to the insurance regulation in force, are required to account unearned premium reserves, outstanding claims provision, mathematical reserves, provision for bonuses and rebates.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations on accounting policies (continued)

Non-life

Unearned premium reserve ("UPR") is calculated on a daily basis for all policies in force for unearned portions of premiums written, except for earthquake premiums issued before September 14, 2007. For marine policies, UPR is calculated as 50% of the last three months' premiums.

Outstanding claims is set for the estimated cost of claims notified but not settled and incurred but not reported claims ("IBNR") at the balance sheet date, less amounts recoverable from reinsurers.

The unearned portion of commissions paid to agencies for the written premiums and commissions received from reinsurers for the ceded premiums are recorded on a daily basis for all policies in force.

Life and pension and non-life

Unearned premium reserve, for insurance contracts in effect, consists of that part of the gross premium which extends to the next fiscal period or periods on a daily basis, and in respect of annual life assurances in effect or those life assurances with periods longer than a year for which accumulation premiums are collected, after the portion that has been set aside for the accumulation and the expense share attributable to the accumulation premium is deducted.

No additional provision was required as a result of the liability adequacy tests. The guaranteed returns in the life insurance portfolio are limited to the lower of guaranteed rate of return and annual inflation rate.

Outstanding claims provision, consists of the amount of claims that has been reported but not yet paid, estimated amount of claims that has been incurred but not reported and reserves for expenses arising from such claims. In accordance with the Technical Reserves Communiqué numbered 2010-12-14-16, after September 30, 2010, incurred but not reported outstanding claim balance is calculated with the method is determined by Undersecretariat of Treasury.

Mathematical reserve, is the sum of the reserves specified in the contract's technical terms and calculated using statistical and actuarial methods in order to cover the liabilities of insurance companies to policyholders and beneficiaries for life, health, sickness and personal accident insurance contracts with periods longer than a year, and if it is committed, the reserves for the part allocated to insured from the revenues derived from the investment of such reserves.

Provision for bonus and rebate; consists of the amounts of bonuses and rebates reserved for insured or beneficiaries according to the technical results of the current year if the company gives bonuses or applies rebates.

The entrance fee income includes the accrued balance when the participants enter the private pension system for the first time or when they open a new private pension account, not exceeding the monthly minimum wage (half of monthly amount for contracts issued after August 9, 2008) at the date the private pension agreement is signed. In the Group's private pension plans, half of the entrance fee is collected within the first year of the contract and is recorded as income. The collection of the other half is deferred till the date the participants leave the private pension system or make a demand for transfer to another company within 10 years (5 years for the contracts issued after August 9, 2008).

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations on accounting policies (continued)

Based on the entrance fee amount collected at the beginning, the Group contributes a continuity (loyalty) award (for TL contracts, the deferred portion of the entrance fee is increased with the inflation rate), amounting to the deferred portion of the entrance fee which is fixed for foreign currency denominated contracts and the deferred portion of the entrance fee increased with the inflation for TL contracts, to the private pension account of the participants on the condition that the participants hold their private pension account in the Group for 10 years without interruption.

For contracts issued after August 9, 2008, loyalty bonus is given when the participants are entitled to pension therefore the calculation of this provision for contracts issued after this date is made over the probability of the participants to keep their pension accounts in the Group until the date of their eligibility to pension.

Fund management charge, which is charged in return for the fund management services, representation and other services provided to pension funds, is recorded as income in the Group's accounts and is shared between the Group and the funds' portfolio manager according to the ratios specified in the agreement signed between the parties. The total charge is recorded to the Group's technical income as fund management revenue and the part of charge which belongs to the funds' portfolio manager thereof, is recorded in the Group's technical expenses.

Management expense deduction, which is deducted as 8% at most, from contributions made to participants' private pension accounts, is accounted for under the management expense deductions account.

Commission expenses incurred for pension fund operations are accounted as pension operating expenses when incurred. The Group, defers the commissions paid for issuing the private pension contracts in the context of TAS 18 "Revenue" and TAS 39 "Financial Instruments: Recognition and Measurement" with the condition of not exceeding the total guaranteed income from these contracts and by considering the expected period of time to secure this income.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Section four

Information related to financial position of the Group

I. Explanations on consolidated capital adequacy ratio:

- a. The capital adequacy ratio of the Group is 13,62 % (December 31, 2010 - 15,43%).
- b. The capital adequacy ratio is calculated in accordance with the "Regulation Regarding the Measurement and Evaluation of Banks' Capital Adequacy Ratio" and "Regulation Regarding Banks' Shareholders' Equity" published as of November 1, 2006 (together referred as "Regulation Regarding Capital Adequacy"). The following tables show the details of "risk weighted assets" and the calculation of "shareholders' equity" for the capital adequacy ratio calculation.
- c. **Information related to capital adequacy ratio:**

	Risk weights ⁽¹⁾					
	The Parent Bank					
	0%	20%	50%	100%	150%	200%
Amount subject to credit risk						
Balance sheet items (net)	26.699.369	3.614.684	10.856.146	54.217.573	825.010	1.263.109
Cash	1.249.578	439	-	-	-	-
Matured marketable securities	-	-	-	-	-	-
The Central Bank of the Republic of Turkey	6.552.408	-	-	-	-	-
Domestic, foreign banks, head offices and branches abroad	-	1.719.201	-	148.807	-	-
Interbank money market placements	14.000	-	-	-	-	-
Receivables from reverse repurchase transactions	-	-	-	-	-	-
Reserve requirements	3.679.970	-	-	-	-	-
Loans	2.466.558	1.048.798	10.615.699	47.764.476	825.010	1.263.109
Non-performing receivables (net)	-	-	-	587.783	-	-
Lease receivables	-	-	-	-	-	-
Available-for-sale financial assets	-	-	-	-	-	-
Held-to-maturity investments	12.258.977	-	-	-	-	-
Receivables from the disposal of assets	-	-	-	32.386	-	-
Miscellaneous receivables	-	784.331	-	977.424	-	-
Interest and income accruals	188.377	27.494	240.447	1.095.248	-	-
Investments in associates, subsidiaries and joint ventures (net)	-	-	-	1.801.223	-	-
Fixed assets	-	-	-	1.148.813	-	-
Other assets	289.501	34.421	-	661.413	-	-
Off-balance sheet items	940.722	3.495.595	483.578	17.263.996	-	-
Non-cash loans and commitments	940.722	2.032.635	483.578	17.107.581	-	-
Derivative financial instruments	-	1.462.960	-	156.415	-	-
Non-risk weighted accounts	-	-	-	-	-	-
Total risk weighted assets⁽²⁾	27.640.091	7.110.279	11.339.724	71.481.569	825.010	1.263.109

(1) There are no assets weighted with 10% risk.

(2) Not weighted.

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

	Risk weights ⁽¹⁾					
	Consolidated					
	0%	20%	50%	100%	150%	200%
Amount subject to credit risk						
Balance sheet items (net)	28.509.867	5.605.103	11.293.522	58.169.582	825.010	1.263.109
Cash	1.685.648	439	-	11.664	-	-
Matured marketable securities	-	-	-	-	-	-
The Central Bank of the Republic of Turkey	6.552.408	-	-	-	-	-
Domestic, foreign banks, head offices and branches abroad	-	3.296.781	-	236.152	-	-
Interbank money market placements	14.000	-	-	-	-	-
Receivables from reverse repurchase transactions	-	20.400	-	-	-	-
Reserve requirements	3.679.970	-	-	-	-	-
Loans	3.190.385	1.407.463	10.894.597	50.428.763	825.010	1.263.109
Non-performing receivables (net)	-	-	-	597.876	-	-
Lease receivables	8.770	7.632	155.737	2.474.561	-	-
Available-for-sale financial assets	-	-	-	-	-	-
Held-to-maturity investments	12.453.073	-	-	-	-	-
Receivables from the disposal of assets	-	-	-	32.386	-	-
Miscellaneous receivables	300.889	784.319	-	1.214.573	-	-
Interest and income accruals	203.338	44.441	243.188	1.143.960	-	-
Investments in associates, subsidiaries and joint ventures (net)	-	-	-	2.300	-	-
Fixed assets	-	-	-	1.193.652	-	-
Other assets	421.386	43.628	-	833.695	-	-
Off-balance sheet items	958.177	3.560.599	526.883	17.524.015	-	-
Non-cash loans and commitments	958.177	2.079.265	526.883	17.340.195	-	-
Derivative financial instruments	-	1.481.334	-	183.820	-	-
Non-risk weighted accounts	-	-	-	-	-	-
Total risk weighted assets ⁽²⁾	29.468.044	9.165.702	11.820.405	75.693.597	825.010	1.263.109

(1) There are no assets weighted with 10% risk.

(2) Not weighted.

d. Summary information about capital adequacy ratio:

	The Parent Bank		Consolidated	
	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Amount subject to credit risk (ASCR)	82.337.220	64.043.140	87.200.673	68.300.334
Amount subject to market risk (ASMR)	3.582.850	1.410.150	4.295.150	1.949.350
Amount subject to operational risk (ASOR)	8.842.703	7.806.018	9.764.669	8.999.966
Shareholders' equity	13.120.803	11.820.819	13.791.177	12.227.770
Shareholders' equity/(ASCR+ASMR+ASOR)*100	13,85	16,14	13,62	15,43

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

e. Information about shareholders' equity items:

	September 30, 2011	December 31, 2010
Core capital		
Paid-in capital	4.347.051	4.347.051
Nominal capital	4.347.051	4.347.051
Capital commitments (-)	-	-
Inflation adjustment to share capital	-	-
Share premium	543.881	543.881
Share cancellation profits	-	-
Legal reserves	266.973	163.959
First legal reserve (Turkish Commercial Code 466/1)	266.973	163.959
Second legal reserve (Turkish Commercial Code 466/2)	-	-
Other legal reserve per special legislation	-	-
Status reserves	-	-
Extraordinary reserves	4.930.128	3.038.543
Reserves allocated by the general assembly	4.930.128	3.038.543
Retained earnings	-	-
Accumulated loss	-	-
Foreign currency share capital exchange difference	-	-
Inflation adjustment of legal reserves, status reserves and extraordinary reserves	-	-
Profit	1.986.540	2.399.148
Current period net profit	1.647.682	2.248.031
Prior periods profit	338.858	151.117
Provisions for possible risks up to 25% of core capital	149.448	124.712
Profit on disposal of associates, subsidiaries and immovables	146.641	80.731
Primary subordinated loans (up to 15% of core capital)	-	-
Minority interests	65.933	63.095
Uncovered portion of loss with reserves (-)	-	-
Current period net loss	-	-
Prior periods loss	-	-
Leasehold improvements (-)	83.977	102.899
Prepaid expenses (-) ⁽¹⁾	-	138.650
Intangible assets (-)	1.251.209	1.243.080
Deferred tax asset amount exceeding 10% of core capital (-)	-	-
Amount exceeding limits as per the third clause of the article 56 of the Law (-)	-	-
Total core capital	11.101.409	9.276.491

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Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

	September 30, 2011	December 31, 2010
Supplementary capital		
General provisions	972.321	826.853
45% of the movables revaluation fund	-	-
45% of the immovables revaluation fund	-	-
Bonus shares of investment in associates, subsidiaries and joint ventures	-	-
Primary subordinated loans that are not considered in the calculation of core capital	-	-
Secondary subordinated loans ⁽²⁾	1.863.722	2.097.218
45% of marketable securities valuation differences	123.418	113.759
Investments in associates and subsidiaries	75.022	5.269
Available-for-sale financial assets	48.396	108.490
Inflation adjustment of capital reserve, profit reserve and prior years' income or loss (except inflation adjustment of legal reserves, status reserves and extraordinary reserves)	-	-
Total supplementary capital	2.959.461	3.037.830
Tier III capital		
Capital	14.060.870	12.314.321
Deductions from the capital	269.693	86.551
Investments in unconsolidated financial institutions and banks	4.503	3.940
The secondary subordinated loans extended to banks, financial institutions (domestic or foreign) or significant shareholders of the bank and the debt instruments that have primary or secondary subordinated loan nature purchased from them	-	-
The secondary subordinated loans extended to banks, financial institutions (domestic or foreign) or significant shareholders of the bank and the debt instruments that have primary or secondary subordinated loan nature purchased from them	118.468	71.906
Loans extended as contradictory to the articles 50 and 51 of the Law	-	-
The net book value of bank's immovables that are over 50% of shareholders' equity and immovables or commodities that are received due to the receivables from customers and are to be disposed according to banking law article 57 as they have been held for more than five years from the acquisition date	8.733	10.705
Other	137.989	-
Total shareholders' equity	13.791.177	12.227.770

(1) In accordance with the article no.1 of the "Regulation Regarding Banks' Shareholders Equity" published in the Official Gazette No. 27870 dated March 10, 2011, prepaid expenses are no longer deducted from core capital.

(2) In accordance with the Regulation, the balance is disclosed net of the related receivables from banks and debt instruments issued by these banks.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

II. Explanations on consolidated market risk:

The Parent Bank considers currency risk, liquidity risk and interest rate risk as the most important components of market risk. The Bank's market risk exposure is calculated on a daily and weekly basis with the "Value-at-Risk Method" on the basis of the marketable securities portfolio and net foreign currency position including the Bank's currency risk. The Bank monitors its position in terms of portfolio created according to risk management policy and value-at-risk limits on a daily basis. All the Bank's on and off-balance-sheet positions and exchange positions are taken into consideration in the Value-at-risk calculations. The results are presented daily to the senior management and monthly to the Executive Committee as a result of its Asset and Liability Management function. The below table represents the details of market risk calculation as of September 30, 2011 in accordance with Section 3 of the "Regulation Regarding Measurement and Evaluation of Banks' Capital Adequacy Ratio" published in the Official Gazette No. 26333, dated November 1, 2006, namely the "Calculation of Market Risk with Standard Method".

a. Information on market risk:

	September 30, 2011	December 31, 2010
(I) Capital to be employed for general market risk - standard method	230.685	78.386
(II) Capital to be employed for specific risk – standard method	53.921	62.568
(III) Capital to be employed for currency risk – standard method	48.660	13.723
(IV) Capital to be employed for commodity risk – standard method	1.996	390
(V) Capital to be employed for settlement risk – standard method	-	-
(VI) Capital to be employed for market risk due to options - standard method	8.350	881
(VII) Capital to be employed for market risk for banks applying risk measurement model	-	-
(VIII) Total capital to be employed for market risk (I+II+III+IV+V+VI+VII)	343.612	155.948
(IX) Amount subject to market risk (12,5xVIII) or (12,5xVII)	4.295.150	1.949.350

III. Explanations on consolidated operational risk:

The Group calculates the amount subject to operational risk based on "Basic Indicator Method" by using 2010, 2009 and 2008 year-end gross income balances of the Group, in accordance with Section 4 of the "Regulation Regarding Measurement and Evaluation of Banks' Capital Adequacy Ratio" effective from June 1, 2007, published in the Official Gazette No. 26333 dated November 1, 2006, namely "The Calculation of the Amount Subject to Operational Risk". As of September 30, 2011, the total amount subject to operational risk is TL 9.764.669 (December 31, 2010 –TL 8.999.966) and the amount of the related capital requirement is TL 781.174 (December 31, 2010 - TL 719.998).

IV. Explanations on consolidated currency risk:

The difference between the Parent Bank's foreign currency denominated and foreign currency indexed on- and off-balance sheet assets and liabilities is defined as the "Net Foreign Currency Position" and it is the basis of currency risk. Another important dimension of the currency risk is the change in the exchange rates of different foreign currencies in "Net foreign currency position" (cross currency risk).

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

The Parent Bank keeps the amount of currency risk exposure within the related legal limits and follows the exchange position on a daily/regular basis. Notwithstanding, the internal exchange position limit is minimal when compared to the related legal limit, internal position limits are not exceeded during the period. As a tool of currency risk management, derivatives such as swap and forwards are used to reduce risk whenever needed. In order to guard against extreme volatility during the year stress tests are applied.

The Parent Bank's publicly announced foreign exchange bid rates as of the date of the financial statements and for the last five days prior to that date are as follows:

(Exchange rates presented as full TL)

	USD	EUR	Yen
Balance sheet evaluation rate:	TL 1,79920	TL 2,45280	TL 0,02345
September 29, 2011 bid rate	TL 1,79160	TL 2,44320	TL 0,02340
September 28, 2011 bid rate	TL 1,79500	TL 2,42880	TL 0,02344
September 27, 2011 bid rate	TL 1,79640	TL 2,42010	TL 0,02349
September 26, 2011 bid rate	TL 1,78050	TL 2,40300	TL 0,02331
September 23, 2011 bid rate	TL 1,77280	TL 2,39110	TL 0,02317

The simple arithmetic average of the Parent Bank's foreign exchange bid rates for the last thirty days preceding the balance sheet date for major foreign currencies are shown in below:

USD : TL 1,73782

Euro : TL 2,40230

Yen : TL 0,02259

As of December 31, 2010;

	USD	EUR	Yen
Balance sheet evaluation rate:	TL 1,50730	TL 1,99780	TL 0,01845

Information on currency risk of the Group:

The foreign currency position of the Group is disclosed in terms of the material currencies in the following table. Foreign currency indexed assets, classified as Turkish Lira assets according to Uniform Chart of Accounts, are considered as foreign currency assets for the calculation of the net foreign currency position. In addition, foreign currency general provisions in the balance sheet, specific provision for non cash loans, prepaid expenses, marketable securities valuation differences and non-performing loans are considered as Turkish Lira in the calculation of the net currency position regarding the related regulation. Therefore, there is a difference between the sum of the foreign currency assets and liabilities in the following table and in the balance sheet. The Group's real position, both in financial and economic terms, is presented in the table below:

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

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Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

September 30, 2011	EURO	USD	Yen	Other FC	Total
Assets					
Cash (cash in vault, effectives, cash in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey	3.776.849	1.844.187	1.195	56.231	5.678.462
Banks	1.242.653	1.487.556	22.782	80.324	2.833.315
Financial assets at fair value through profit or loss	7.962	85.213	1.131	1.319	95.625
Money market placements	-	-	-	-	-
Available-for-sale financial assets	291.510	1.112.301	-	61.979	1.465.790
Loans ⁽¹⁾	9.589.172	18.635.951	82.315	830.652	29.138.090
Investments in associates, subsidiaries and joint ventures	-	-	-	98.505	98.505
Held-to-maturity investments	649.544	8.490.981	-	-	9.140.525
Hedging derivative financial assets	-	136	-	-	136
Tangible assets	611	-	-	17.568	18.179
Intangible assets	-	-	-	1.485	1.485
Other assets	2.209.933	2.010.703	1.425	1.100.573	5.322.634
Total assets	17.768.234	33.667.028	108.848	2.248.636	53.792.746
Liabilities					
Bank deposits	773.954	214.705	17	76.248	1.064.924
Foreign currency deposits	8.475.005	20.449.863	10.386	1.848.888	30.784.142
Funds from money market	712.536	4.371.040	-	14.393	5.097.969
Funds borrowed from other financial institutions	6.738.093	4.857.325	49.106	23.415	11.667.939
Marketable securities issued	1.058.122	1.202.450	-	-	2.260.572
Miscellaneous payables	345.868	208.818	251	13.102	568.039
Hedging derivative financial liabilities	60.360	388.795	-	-	449.155
Other liabilities	3.017.284	721.786	1.867	5.260	3.746.197
Total liabilities	21.181.222	32.414.782	61.627	1.981.306	55.638.937
Net on balance sheet position	(3.412.988)	1.252.246	47.221	267.330	(1.846.191)
Net off balance sheet position ⁽²⁾	4.036.523	(2.174.117)	(31.645)	(106.902)	1.723.859
Financial derivative assets	9.666.956	21.682.601	88.500	408.445	31.846.502
Financial derivative liabilities	5.630.433	23.856.718	120.145	515.347	30.122.643
Non-cash loans	5.159.935	10.151.672	430.559	230.593	15.972.759
December 31, 2010					
Total assets	13.016.015	25.494.815	90.329	1.169.013	39.770.172
Total liabilities	16.460.431	21.750.270	55.503	1.023.055	39.289.259
Net on-balance sheet position	(3.444.416)	3.744.545	34.826	145.958	480.913
Net off-balance sheet position	4.390.714	(4.821.403)	(49.169)	27.141	(452.717)
Financial derivative assets	7.702.003	12.339.276	140.930	401.513	20.583.722
Financial derivative liabilities	3.311.289	17.160.679	190.099	374.372	21.036.439
Non-cash loans	3.989.735	7.344.613	324.972	235.124	11.894.444

(1) Includes FX indexed loans amounting to TL 3.833.108 (December 31, 2010 – TL 2.161.909) which have been disclosed as TL in the financial statements.

(2) Foreign exchange purchase commitments with the future value dates amounting to TL 131.374 booked under commitments are not included

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

V. Explanations on consolidated interest rate risk:

The monitoring of interest rate sensitive assets and liabilities and sensitivity analysis regarding the effect of interest rate fluctuations on the financial statements are performed by the risk management department for all interest sensitive instruments. The results are presented monthly to the Executive Committee as a result of its Asset and Liability Management function. By using sensitivity and scenario analyses, the possible effects due to the interest rate volatility are analyzed. In these analyses possible losses are calculated for the change in fair value of interest sensitive products by applying shock tests to interest rates.

Sensitivity analyses are also calculated daily within Market Risk reporting on the basis of maturity and foreign exchange types and reported to Senior Management by checking them against the determined limits.

The Parent Bank utilizes TL/foreign currency and TL/TL interest rate swap transactions in order to limit the interest and foreign currency risk arising from short-term deposit and long-term consumer loans within the TL balance sheet. Furthermore, in order to reduce the repricing mismatch in the foreign currency balance sheet, foreign currency/foreign currency interest rate swaps were utilized.

a. Interest rate sensitivity of assets, liabilities and off-balance sheet items (based on repricing dates):

September 30, 2011	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and over	Non Interest bearing	Total
Assets							
Cash (cash in vault, effectives, cash in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey	-	-	-	-	-	11.650.092	11.650.092
Banks	1.068.468	515.062	935.868	270.294	-	762.694	3.552.386
Financial assets at fair value through profit/loss	108.938	158.218	223.973	155.603	11.707	60.767	719.206
Money market placements	34.483	-	-	-	-	-	34.483
Available-for-sale financial assets	711.941	755.627	886.194	2.731.199	2.592.645	17.429	7.695.035
Loans	8.693.984	7.636.328	15.590.384	21.160.302	13.444.205	1.900.061	68.425.264
Held-to-maturity investments	423.767	1.039.055	1.986.328	2.641.672	6.500.108	-	12.590.930
Other assets	753.571	1.284.864	1.122.512	1.390.386	133.300	6.545.765	11.230.398
Total assets	11.795.152	11.389.154	20.745.259	28.349.456	22.681.965	20.936.808	115.897.794
Liabilities							
Bank deposits	318.686	315.724	461.179	62.545	111.241	319.936	1.589.311
Other deposits	41.116.691	8.914.852	2.610.295	574.552	26.996	11.021.947	64.265.333
Funds from money market	3.714.210	1.555.467	2.589.320	-	-	-	7.858.997
Miscellaneous payables	54	-	-	-	-	4.596.707	4.596.761
Marketable securities issued	450	3.185.332	5.162	-	-	-	3.190.944
Funds borrowed from other financial institutions	3.746.840	3.653.953	3.382.013	1.505.551	584.577	4.958	12.877.892
Other liabilities and shareholders' equity	1.190.317	1.025.043	1.703.956	391.097	134.579	17.073.564	21.518.556
Total liabilities	50.087.248	18.650.371	10.751.925	2.533.745	857.393	33.017.112	115.897.794
Balance sheet long position	-	-	9.993.334	25.815.711	21.824.572	-	57.633.617
Balance sheet short position	(38.292.096)	(7.261.217)	-	-	-	(12.080.304)	(57.633.617)
Off-balance sheet long position	5.892.416	12.982.952	-	-	-	-	18.875.368
Off-balance sheet short position	-	-	(393.989)	(17.872.889)	(531.650)	-	(18.798.528)
Total position	(32.399.680)	5.721.735	9.599.345	7.942.822	21.292.922	(12.080.304)	76.840

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

December 31, 2010	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and over	Non interest bearing	Total
Assets							
Cash (cash in vault, effectives, cash in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey	-	-	-	-	-	6.034.426	6.034.426
Banks	540.361	755.486	385.433	402.066	-	480.384	2.563.730
Financial assets at fair value through profit/loss	282.589	377.955	132.778	85.728	126.666	64.399	1.070.115
Money market placements	970.970	-	-	-	-	-	970.970
Available-for-sale financial assets	670.127	167.152	793.347	2.234.836	1.989.900	20.618	5.875.980
Loans	10.327.087	5.869.082	13.962.312	15.694.640	7.841.257	981.484	54.675.862
Held-to-maturity investments	2.020.451	2.173.896	822.733	2.169.162	5.788.702	-	12.974.944
Other assets	1.013.925	1.502.890	754.359	986.972	39.670	4.350.215	8.648.031
Total assets	15.825.510	10.846.461	16.850.962	21.573.404	15.786.195	11.931.526	92.814.058
Liabilities							
Bank deposits	571.638	367.371	219.328	328.878	103.660	193.023	1.783.898
Other deposits	36.476.310	6.290.441	933.054	366.958	30.530	9.325.811	53.423.104
Funds from money market	1.378.265	1.892.553	380.198	-	-	-	3.651.016
Miscellaneous payables	2.606.114	1.166	-	-	-	1.598.691	4.205.971
Marketable securities issued	-	1.375.419	-	-	19.033	452	1.394.904
Funds borrowed from other financial institutions	5.645.591	735.268	2.846.779	312.164	533.095	173	10.073.070
Other liabilities and shareholders' equity	159.008	1.198.528	1.678.196	313.473	123.616	14.809.274	18.282.095
Total liabilities	46.836.926	11.860.746	6.057.555	1.321.473	809.934	25.927.424	92.814.058
Balance sheet long position	-	-	10.793.407	20.251.931	14.976.261	-	46.021.599
Balance sheet short position	(31.011.416)	(1.014.285)	-	-	-	(13.995.898)	(46.021.599)
Off-balance sheet long position	3.042.205	4.589.973	423.157	-	-	-	8.055.335
Off-balance sheet short position	-	-	-	(7.757.173)	(500.565)	-	(8.257.738)
Total position	(27.969.211)	3.575.688	11.216.564	12.494.758	14.475.696	(13.995.898)	(202.403)

b. Average interest rates for monetary financial instruments:

The following average interest rates have been calculated by weighting the rates with their principal amounts outstanding as of the balance sheet date.

September 30, 2011 ⁽¹⁾	EURO	USD	Yen	TL
	%	%	%	%
Assets ⁽³⁾				
Cash (cash in vault, effectives, cash in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey	-	-	-	-
Banks	0,80	1,00	-	7,88
Financial assets at fair value through profit/loss	6,44	4,34	-	8,03
Money market placements	-	-	-	8,83
Available-for-sale financial assets	7,87	6,45	-	9,16
Loans ⁽²⁾	5,59	4,62	4,85	13,40
Held-to-maturity investments	5,26	6,71	-	9,68
Liabilities ⁽³⁾				
Bank deposits	-	1,60	-	6,74
Other deposits	3,54	4,24	0,30	9,15
Funds from money market	2,27	1,70	-	5,90
Miscellaneous payables	-	-	-	-
Marketable securities issued	-	-	-	8,86
Funds borrowed from other financial institutions	3,16	2,30	2,34	10,28

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Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

December 31, 2010 ⁽¹⁾	EURO	USD	Yen	TL
	%	%	%	%
Assets ⁽³⁾				
Cash (cash in vault, effectives, cash in transit, cheques purchased) and Balances with the Central Bank of the Republic of Turkey	-	-	-	-
Banks	-	1,19	-	7,91
Financial assets at fair value through profit/loss	8,02	4,62	-	8,24
Money market placements	-	-	-	6,02
Available-for-sale financial assets	6,89	6,81	-	7,72
Loans ⁽²⁾	4,95	4,35	4,72	12,87
Held-to-maturity Investments	5,23	6,76	-	9,98
Liabilities ⁽³⁾				
Bank deposits	0,55	1,05	-	8,13
Other deposits	2,54	2,78	0,30	8,71
Funds from money market	1,75	1,49	-	5,42
Miscellaneous payables	-	-	-	-
Marketable securities issued	-	-	-	-
Funds borrowed from other financial institutions	2,44	2,46	2,38	10,74

(1) The average interest rates disclosed above are those of the Parent Bank.

(2) Does not include credit card receivables.

(3) Does not include demand/non-interest transactions

VI. Explanations on consolidated liquidity risk:

Liquidity risk comprises the risks arising from the inability to fund the increase in the assets, the inability to cover the liabilities due and the operations performed in illiquid markets. The liquidity risk is managed within the Asset and Liability Management strategy of the Group in accordance with the policies of the market risk. In this scope, the funding sources are being diversified, and sufficient cash and cash equivalents are held, the liquidity position of the Parent Bank in the short and the long term is followed. During the monthly meetings of the Executive Committee as Asset and Liability Management, the liquidity position of the Parent Bank is evaluated and it is ensured that the required actions are taken when considered necessary.

Off-balance-sheet derivative instruments and bonds issued are used in order to extend the short-term funding structure in the banking sector.

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

Breakdown of assets and liabilities according to their outstanding maturities:

September 30, 2011	Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	5 years and over	Unclassified ^{(1), (2)}	Total
Assets								
Cash (cash in vault, effectives, cash in transit, cheques purchased) and balances with the Central Bank of the Republic of Turkey	7.970.121	3.679.971	-	-	-	-	-	11.650.092
Banks	762.694	1.044.378	538.614	842.090	364.610	-	-	3.552.386
Financial assets at fair value through profit or loss	57.834	103.938	130.145	202.193	181.528	40.635	2.933	719.206
Money market placements	-	34.483	-	-	-	-	-	34.483
Available-for-sale financial assets	77.543	4.610	97.539	256.041	3.132.385	4.109.488	17.429	7.695.035
Loans	-	9.871.882	7.558.523	15.573.610	21.123.852	13.699.521	597.876	68.425.264
Held-to-maturity investments	-	-	2	433.866	4.617.898	7.539.164	-	12.590.930
Other assets ⁽¹⁾	1.196.117	2.354.894	1.381.907	1.201.276	1.675.741	166.976	3.253.487	11.230.398
Total assets	10.064.309	17.094.156	9.706.730	18.509.076	31.096.014	25.555.784	3.871.725	115.897.794
Liabilities								
Bank deposits	319.936	318.686	315.724	461.179	62.545	111.241	-	1.589.311
Other deposits	11.021.947	39.857.598	8.862.690	3.802.670	693.425	27.003	-	64.265.333
Funds borrowed from other financial institutions	4.958	3.334.592	70.307	5.648.136	2.785.661	1.034.238	-	12.877.892
Funds from money market	-	3.347.529	1.464.210	2.427.744	619.514	-	-	7.858.997
Marketable securities issued	-	450	1.040.620	320.844	1.700.258	128.772	-	3.190.944
Miscellaneous payables	538.061	3.857.409	11.381	88.345	133	107	101.325	4.596.761
Other liabilities ⁽²⁾	2.109.943	249.208	412.726	900.898	4.407.736	990.710	12.447.335	21.518.556
Total liabilities	13.994.845	50.965.472	12.177.658	13.649.816	10.269.272	2.292.071	12.548.660	115.897.794
Net liquidity gap	(3.930.536)	(33.871.316)	(2.470.928)	4.859.260	20.826.742	23.263.713	(8.676.935)	-
December 31, 2010								
Total assets	4.906.941	17.015.258	7.824.814	14.252.544	25.241.212	19.943.555	3.629.734	92.814.058
Total liabilities	10.148.828	45.325.130	8.930.873	7.119.134	6.493.608	3.611.710	11.184.775	92.814.058
Net liquidity gap	(5.241.887)	(28.309.872)	(1.106.059)	7.133.410	18.747.604	16.331.845	(7.555.041)	-

(1) Assets that are necessary for banking activities and that cannot be liquidated in the short term, such as fixed and intangible assets, investments in associates, subsidiaries, stationery stocks, prepaid expenses and loans under follow-up, are classified in this column.

(2) Shareholders' equity is presented under the "Other liabilities" item in the "Unclassified" column.

VII. Explanations on consolidated operating segments:

The Group carries out its banking operations through three main business units: (1) Retail Banking (including card payment systems and SME banking), (2) Corporate and Commercial Banking (3) Private Banking and Wealth Management.

The Group's Retail Banking activities include credit cards, SME (small medium size enterprises) banking and individual banking. Retail Banking products and services offered to customers include card payment systems, consumer loans (including general purpose loans, auto loans and mortgages), commercial instalment loans, SME loans, time and demand deposits, investment accounts, life and non-life insurance products and payroll services. Credit card operations cover the management of products and services for member merchants as well as the sales and marketing operations for a variety of customer types. Crystal, Play, Adios and Taksitçi are the other card brands providing different services for the different segments within the World brand, shopping and marketing platform of the Bank. The Bank also offers debit cards and a prepaid card named World Hediye Card.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

Corporate and Commercial Banking is organised into two sub-segments: Commercial Banking, which serves mid-sized companies; and Corporate Banking, which serves large local and multinational companies. Corporate and Commercial Banking provides products and services including working capital financing, foreign trade finance, project finance, leasing and factoring, domestic and international non-cash credit line facilities such as letters of credit and guarantees, cash management and e-banking services.

Through its Private Banking and Wealth Management activities, the Group serves high net worth customers and delivers investment products to this customer segment. Among the products and services offered to Private Banking customers are time deposits, mutual funds, derivative products such as forwards, futures and options, personal loans, foreign exchange, gold and equity trading, pension plans, insurance products, safe deposit boxes and e-banking services. Private Banking services are enhanced by investment advisory and portfolio management services provided by the Parent Bank and its portfolio management and brokerage subsidiaries.

The Group's widespread branch network and alternative distribution channels including ATMs, telephone banking, internet banking and mobile banking are utilized to serve customers in all segments.

Foreign operations include the Group's banking transactions in the Netherlands, Azerbaijan and Russia.

Other operations mainly consist of treasury transactions, operations of supporting business units, insurance operations and other unallocated transactions.

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

Some balance sheet and income statement items based on operating segments:

September 30, 2011	Retail banking	Corporate and commercial banking	Private banking and wealth management	Foreign operations	Other ⁽¹⁾	Consolidation adjustments ⁽²⁾	Total operations of the Group
Operating revenue	1.928.827	1.392.861	204.232	122.090	1.088.386	50.518	4.786.914
Operating expenses	(1.082.965)	(368.012)	(83.256)	(71.125)	(1.205.258)	55.236	(2.755.380)
Net operating income	845.862	1.024.849	120.976	50.965	(116.872)	105.754	2.031.534
Dividend income ⁽³⁾	-	-	-		5.891		5.891
Income/Loss from Investments accounted based on equity method					10.803		10.803
Profit before tax	845.862	1.024.849	120.976	50.965	(100.178)	105.754	2.048.228
Tax provision ⁽³⁾	-	-	-		(395.532)		(395.532)
Net Profit	845.862	1.024.849	120.976	50.965	(495.710)	105.754	1.652.696
Minority interest ⁽⁴⁾					(5.014)		(5.014)
Group income/loss	845.862	1.024.849	120.976	50.965	(500.724)	105.754	1.647.682
Segment assets ⁽⁴⁾	28.714.119	37.178.013	1.572.802	5.167.896	44.797.193	(1.657.500)	115.772.523
Investments in associates, subsidiaries and joint ventures					125.271		125.271
Total assets	28.714.119	37.178.013	1.572.802	5.167.896	44.922.464	(1.657.500)	115.897.794
Segment liabilities ⁽⁴⁾	25.508.870	27.335.689	15.871.839	4.355.211	32.469.081	(1.651.777)	103.888.913
Shareholders' equity					12.008.881		12.008.881
Total liabilities	25.508.870	27.335.689	15.871.839	4.355.211	44.477.962	(1.651.777)	115.897.794

- (1) Other segment, mainly includes Treasury management results, activities of business support units, insurance operations and the other undistributed operations.
- (2) Consolidation adjustments include transactions with subsidiaries and investments consolidated in these financial statements.
- (3) Dividend income and tax expenses have not been distributed based on operating segments and have been presented under "Other" column.
- (4) Segment assets and liabilities figures are prepared according to Management Information Systems.

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Information related to financial position of the Group (continued)

December 31, 2010	Retail banking	Corporate and commercial banking	Private banking and wealth management	Foreign operations	Other ⁽¹⁾	Consolidation adjustments ⁽²⁾	Total operations of the Group
Operating revenue ⁽⁴⁾	2.051.955	990.375	254.005	132.920	1.475.534	(63.419)	4.841.370
Operating expenses	(806.894)	(393.895)	(77.214)	(34.219)	(1.260.439)	29.515	(2.543.146)
Net operating income	1.245.061	596.480	176.791	98.701	215.095	(33.904)	2.298.224
Dividend income ^{(3), (4)}					1.082		1.082
Income/Loss from Investments accounted based on equity method ^{(3), (4)}					3.994		3.994
Income before tax	1.245.061	596.480	176.791	98.701	220.171	(33.904)	2.303.300
Tax provision ^{(3), (4)}					(433.006)		(433.006)
Net Profit	1.245.061	596.480	176.791	98.701	(212.835)	(33.904)	1.870.294
Minority interest ⁽⁴⁾					(4.477)		(4.477)
Group income/loss⁽⁴⁾	1.245.061	596.480	176.791	98.701	(217.312)	(33.904)	1.865.817
Segment assets	26.522.965	33.129.240	1.275.280	4.193.536	28.578.708	(986.082)	92.713.647
Investments in associates, subsidiaries and joint ventures					100.411		100.411
Total assets	26.522.965	33.129.240	1.275.280	4.193.536	28.679.119	(986.082)	92.814.058
Segment liabilities	23.676.641	21.843.565	11.257.345	3.551.013	22.718.162	(978.437)	82.068.289
Shareholders' equity					10.745.769		10.745.769
Total liabilities	23.676.641	21.843.565	11.257.345	3.551.013	33.463.931	(978.437)	92.814.058

- (1) Other segment, mainly includes Treasury management results, activities of business support units, insurance operations and the other undistributed operations.
- (2) Consolidation adjustments include transactions with subsidiaries and investments consolidated in these financial statements.
- (3) Dividend income and tax expenses have not been distributed based on operating segments and have been presented under "Other" column.
- (4) Income statement figures represent balances for the 9 months period ended September 30, 2010.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Section five

Explanations and notes related to consolidated financial statements

I. Explanations and notes related to consolidated assets:

a. Information related to cash and the account of the Central Bank of the Republic of Turkey

1. Information on cash and the account of the Central Bank of the Republic of Turkey ("the CBRT"):

	September 30, 2011		December 31, 2010	
	TL	FC	TL	FC
Cash	729.416	268.792	513.679	188.190
The CBRT	5.242.214	4.990.164	2.044.632	3.172.303
Other	-	419.506	-	115.622
Total	5.971.630	5.678.462	2.558.311	3.476.115

2. Information on the account of the Central Bank of the Republic of Turkey:

	September 30, 2011		December 31, 2010	
	TL	FC	TL	FC
Demand unrestricted account ⁽¹⁾	5.242.214	1.310.194	2.044.632	865.256
Time unrestricted account	-	-	-	-
Reserve requirement	-	3.679.970	-	2.307.047
Total	5.242.214	4.990.164	2.044.632	3.172.303

- (1) The TL reserve requirement has been classified in "Central Bank Demand Unrestricted Account" based on the correspondence with BRSA letter as of January 3, 2008.

3. Information on reserve requirements:

In accordance with the "Communiqué Regarding the Reserve Requirements" numbered 2005/1, the banks operating in Turkey place reserves in the CBRT for their TL and foreign currency liabilities according to the maturities stated below as of September 30, 2011.

- a) TL liabilities;
- Demand, notice deposits and private current accounts 16%,
 - Up to 1 month time deposit accounts (1 month included) 16%,
 - Up to 3 months time deposit accounts (3 months included) 13%,
 - Up to 6 months time deposit accounts (6 months included) 9%,
 - Up to 1 year time deposit accounts 6%,
 - 1 year and over 1 year time deposit accounts and accumulating deposit accounts 5%,
 - Liabilities excluding deposit 13%.
- b) Foreign currency liabilities;
- Demand, notice FC deposits and private current accounts and up to 1 month, up to 3 months, up to 6 months, and up to 1 year time FC deposits 11,5%
 - 1 year time and more than 1 year time FC deposits 9,5 %,
 - Up to 1 year time FC liabilities (1 year included) 11,5%,
 - Up to 3 years time FC liabilities (3 years included) 9,5%,
 - More than 3 years time FC liabilities 8,5%.

As of September 30, 2011, the Group's reserve deposits, including those at foreign banks, amount to TL 10.623.437 (December 31, 2010 – TL 5.255.231).

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

b. Information on financial assets at fair value through profit and loss:

1. As of September 30, 2011, The Group does not have financial assets at fair value through profit and loss subject to repo transactions (December 31, 2010 - TL 43.734) and financial assets at fair value through profit and loss given as collateral/blocked amount to TL 70.455 (December 31, 2010 – TL 72.723).

2. Positive differences related to trading derivative financial assets:

	September 30, 2011		December 31, 2010	
	TL	FC	TL	FC
Forward transactions	100.074	5.842	27.563	1.723
Swap transactions	87.916	58.966	541.681	37.956
Futures transactions	-	-	-	-
Options	145.734	24.314	53.535	31.066
Other	-	-	-	-
Total	333.724	89.122	622.779	70.745

c. Information on banks:

1. Information on banks:

	September 30, 2011		December 31, 2010	
	TL	FC	TL	FC
Banks	719.071	2.833.315	708.938	1.854.792
Domestic	676.851	1.126.682	682.482	658.248
Foreign	42.220	1.706.633	26.456	1.196.544
Head quarters and branches abroad	-	-	-	-
Other financial institutions	-	-	-	-
Total	719.071	2.833.315	708.938	1.854.792

d. Information on available-for-sale financial assets:

1. Characteristics and carrying values of available-for-sale financial assets given as collateral:

As of September 30, 2011, available-for-sale financial assets given as collateral/blocked amount to TL 566.127 (December 31, 2010 – TL 512.549) and available for sale financial assets subject to repo transactions amount to TL 1.112.225 (December 31, 2010 – TL 196.783).

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

2. Information on available-for-sale financial assets:

	September 30, 2011	December 31, 2010
Debt securities	7.664.587	5.804.928
Quoted in stock exchange ⁽¹⁾	5.891.505	4.494.573
Not quoted ⁽²⁾	1.773.082	1.310.355
Share certificates	62.730	58.401
Quoted in stock exchange	137	354
Not quoted	62.593	58.047
Impairment provision (-)	(109.825)	(44.332)
Other ⁽³⁾	77.543	56.983
Total	7.695.035	5.875.980

(1) As of September 30, 2011, Eurobonds amounting to TL 943.518 (December 31, 2010 – TL 809.457) have been classified under debt securities quoted on stock exchange, even though they are not quoted on a stock exchange since they are traded in the secondary market.

(2) As of September 30, 2011, not quoted debt securities amounting to TL 1.009.814 (December 31, 2010 – TL 729.227) are credit linked notes.

(3) As of September 30, 2011, other available-for-sale financial assets include mutual funds amounting to TL 77.543 (December 31, 2010 – TL 56.983).

e. Explanations on loans:

1. Information on all types of loans or advance balances given to shareholders and employees of the Group:

	September 30, 2011		December 31, 2010	
	Cash	Non-cash	Cash	Non-cash
Direct loans granted to shareholders	-	-	-	-
Corporate shareholders	-	-	-	-
Real person shareholders	-	-	-	-
Indirect loans granted to shareholders	9.504	215.072	7.962	81.282
Loans granted to employees	90.658	71	85.204	83
Total	100.162	215.143	93.166	81.365

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

2. Information on the first and second group loans and other receivables and loans and other receivables that have been restructured or rescheduled:

	Standard loans and other receivables		Loans and other receivables under close monitoring	
	Loans and other receivables	Restructured or rescheduled	Loans and other receivables	Restructured or rescheduled
Cash loans				
Non-specialised loans	66.430.168	-	1.319.979	77.241
Discount and purchase notes	985.219	-	3.941	-
Export loans	7.684.983	-	196.524	-
Import loans	-	-	-	-
Loans granted to financial sector	1.459.832	-	-	-
Foreign loans	1.965.252	-	6.205	-
Consumer loans	11.946.445	-	374.245	2.658
Credit cards	9.305.000	-	201.115	16.642
Precious metal loans	374.752	-	5.188	-
Other ⁽¹⁾	32.708.685	-	532.761	57.941
Specialised loans	-	-	-	-
Other receivables	-	-	-	-
Total	66.430.168	-	1.319.979	77.241

- (1) As explained in the Note I.k of Section V, TL 237.147 of fair value difference of hedged items is classified under other loans.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

3. Information on consumer loans, individual credit cards, personnel loans and personnel credit cards:

	Short- term	Medium and long-term	Total
Consumer loans-TL	80.985	11.800.114	11.881.099
Real estate loans	3.276	6.000.882	6.004.158
Automotive loans	6.258	1.095.043	1.101.301
Consumer loans	351	42.107	42.458
Other	71.100	4.662.082	4.733.182
Consumer loans-FC indexed	-	194.837	194.837
Real estate loans	-	186.604	186.604
Automotive loans	-	963	963
Consumer loans	-	4.739	4.739
Other	-	2.531	2.531
Consumer loans-FC	6.579	42.799	49.378
Real estate loans	-	-	-
Automotive loans	461	3.358	3.819
Consumer loans	2.530	22.781	25.311
Other	3.588	16.660	20.248
Individual credit cards-TL	8.803.327	203.708	9.007.035
With installments	4.674.851	195.589	4.870.440
Without installments	4.128.476	8.119	4.136.595
Individual credit cards-FC	920	-	920
With installments	920	-	920
Without installments	-	-	-
Personnel loans-TL	2.804	38.295	41.099
Real estate loans	4	1.332	1.336
Automotive loans	12	910	922
Consumer loans	-	-	-
Other	2.788	36.053	38.841
Personnel loans-FC indexed	-	6	6
Real estate loans	-	6	6
Automotive loans	-	-	-
Consumer loans	-	-	-
Other	-	-	-
Personnel loans-FC	160	169	329
Real estate loans	-	-	-
Automotive loans	-	-	-
Consumer loans	-	-	-
Other	160	169	329
Personnel credit cards-TL	47.973	423	48.396
With installments	27.494	423	27.917
Without installments	20.479	-	20.479
Personnel credit cards-FC	53	-	53
With installments	53	-	53
Without installments	-	-	-
Credit deposit account-TL (real person)⁽¹⁾	156.379	-	156.379
Credit deposit account-FC (real person)	221	-	221
Total	9.099.401	12.280.351	21.379.752

(1) TL 775 of the credit deposit account belongs to the loans used by personnel.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

4. Information on commercial installment loans and corporate credit cards:

	Short-term	Medium and long-term	Total
Commercial installments loans-TL	779.420	5.046.034	5.825.454
Business loans	1.115	294.537	295.652
Automotive loans	28.311	1.617.844	1.646.155
Consumer loans	-	182	182
Other	749.994	3.133.471	3.883.465
Commercial installments loans-FC indexed	27.503	553.430	580.933
Business loans	-	33.536	33.536
Automotive loans	1.055	118.567	119.622
Consumer loans	-	-	-
Other	26.448	401.327	427.775
Commercial installments loans-FC	1.291.443	823.907	2.115.350
Business loans	-	-	-
Automotive loans	-	-	-
Consumer loans	112.625	61.011	173.636
Other	1.178.818	762.896	1.941.714
Corporate credit cards-TL	464.424	1.929	466.353
With installment	177.058	1.929	178.987
Without installment	287.366	-	287.366
Corporate credit cards-FC	-	-	-
With installment	-	-	-
Without installment	-	-	-
Credit deposit account-TL (legal person)	521.109	-	521.109
Credit deposit account-FC (legal person)	3.335	-	3.335
Total	3.087.234	6.425.300	9.512.534

5. Distribution of domestic and foreign loans: Distribution has been disclosed based on the location where the customers operate.

	September 30, 2011	December 31, 2010
Domestic loans	65.855.931	52.677.468
Foreign loans	1.971.457	1.565.512
Total	67.827.388	54.242.980

6. Loans granted to associates and subsidiaries:

	September 30, 2011	December 31, 2010
Direct loans granted to associates and subsidiaries	26.691	25.085
Indirect loans granted to associates and subsidiaries	-	-
Total	26.691	25.085

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

7. Specific provisions provided against loans:

	September 30, 2011	December 31, 2010
Loans and other receivables with limited collectability	66.357	54.980
Loans and other receivables with doubtful collectability	176.880	340.240
Uncollectible loans and other receivables	1.259.496	1.079.864
Total	1.502.733	1.475.084

8. Information on non-performing loans (net):

8 (i). Information on non-performing loans restructured or rescheduled by the Group, and other receivables:

	III. Group Loans and other receivables with limited collectability	IV. Group Loans and other receivables with doubtful collectability	V. Group Uncollectible loans and other receivables
September 30, 2011			
(Gross amounts before specific reserves)	33.952	28.290	81.083
Restructured loans and other receivables	33.952	28.290	81.083
Rescheduled loans and other receivables	-	-	-
December 31, 2010			
(Gross amounts before specific reserves)	28.592	34.388	50.390
Restructured loans and other receivables	28.592	34.388	50.390
Rescheduled loans and other receivables	-	-	-

8 (ii). Information on the movement of total non-performing loans:

	III. Group Loans and other receivables with limited collectability	IV. Group Loans and other receivables with doubtful collectability	V. Group Uncollectible loans and other receivables
December 31, 2010	247.452	374.080	1.286.434
Additions (+)	1.077.797	44.210	104.390
Transfers from other categories of non- performing loans (+)	-	524.990	430.038
Transfer to other categories of non-performing loans (-)	(524.990)	(430.038)	-
Collections (-)	(419.608)	(193.181)	(429.199)
FX valuation differences	2.530	137	5.675
Write-offs (-)	-	-	(108)
Corporate and commercial loans	-	-	(108)
Consumer loans	-	-	-
Credit cards	-	-	-
Other	-	-	-
September 30, 2011	383.181	320.198	1.397.230
Specific provision (-)	(66.357)	(176.880)	(1.259.496)
Net balance on balance sheet	316.824	143.318	137.734

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

8 (iii). Information on non-performing loans granted as foreign currency loans

	III. Group	IV. Group	V. Group
	Loans and other receivables with limited collectability	Loans and other receivables with doubtful collectability	Uncollectible loans and other receivables
September 30, 2011			
Period end balance	120.094	2.544	94.772
Specific provision (-)	(19.833)	(1.269)	(84.271)
Net balance on-balance sheet	100.261	1.275	10.501
December 31, 2010			
Period end balance	13.651	662	127.311
Specific provision (-)	(7.433)	(219)	(95.696)
Net balance on-balance sheet	6.218	443	31.615

8 (iv). Information on the gross and net amounts of the non-performing loans according to types of borrowers:

	III. Group	IV. Group	V. Group
	Loans and other receivables with limited collectability	Loans and other receivables with doubtful collectability	Uncollectible loans and other receivables
September 30, 2011 (net)	316.824	143.318	137.734
Loans granted to real persons and corporate entities (gross)	383.181	295.208	1.313.224
Specific provision amount (-)	(66.357)	(151.890)	(1.175.490)
Loans granted to real persons and corporate entities (net)	316.824	143.318	137.734
Banks (gross)	-	24.990	-
Specific provision amount (-)	-	(24.990)	-
Banks (net)	-	-	-
Other loans and receivables (gross)	-	-	84.006
Specific provision amount (-)	-	-	(84.006)
Other loans and receivables (net)	-	-	-
December 31, 2010 (net)	192.472	33.840	206.570
Loans granted to real persons and corporate entities (gross)	247.452	373.357	1.201.042
Specific provision amount (-)	(54.980)	(339.517)	(994.472)
Loans granted to real persons and corporate entities (net)	192.472	33.840	206.570
Banks (gross)	-	723	1.380
Specific provision amount (-)	-	(723)	(1.380)
Banks (net)	-	-	-
Other loans and receivables (gross)	-	-	84.012
Specific provision amount (-)	-	-	(84.012)
Other loans and receivables (net)	-	-	-

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

9. Information on the performing loans the maturity of which were extended:

Renewed Agreement	Up to 1 month	1-3 months	3-6 months	6 months-1 year	1 year and over	Total
1	80.996	156.580	120.319	14.901	6.052	378.848
2	106.842	25.332	32.750	612	24	165.560
3 and more	85.831	18.999	1.536	1.960	-	108.326
Total	273.669	200.911	154.605	17.473	6.076	652.734

f. Information on held-to-maturity investments:

1. Information on government debt securities held-to-maturity:

	September 30, 2011	December 31, 2010
Government bond	12.590.930	12.974.944
Treasury bill	-	-
Other debt securities	-	-
Total	12.590.930	12.974.944

2. Information on investment securities held-to-maturity:

	September 30, 2011	December 31, 2010
Debt securities	12.784.522	13.053.379
Quoted on stock exchange ⁽¹⁾	12.784.522	13.053.379
Not quoted	-	-
Impairment provision (-) ⁽²⁾	(193.592)	(78.435)
Total	12.590.930	12.974.944

(1) As of September 30, 2011, Eurobonds amounting to TL 8.995.179 (December 31, 2010 – TL 7.665.114) have been classified under debt securities quoted on stock exchange, even though they are not quoted on a stock exchange because they are traded in the secondary market.

(2) Necessary impairment provision has been provided for foreign government securities held in Group companies.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

3. Movement of held-to-maturity investments within the period:

	September 30, 2011	December 31, 2010
Beginning balance	12.974.944	13.318.719
Foreign currency differences on monetary assets ⁽¹⁾	1.407.622	33.702
Purchases during year	625.867	3.020.222
Disposals through sales and redemptions	(2.302.346)	(3.383.510)
Impairment provision (-)	(115.157)	(14.189)
Period end balance	12.590.930	12.974.944

(1) Also includes the changes in the interest income accruals.

4. Characteristics and carrying values of held-to-maturity investments given as collateral:

As of September 30 2011, held-to-maturity investments given as collateral/blocked amount to TL 3.345.249 (December 31, 2010 – TL 1.463.634). Held-to-maturity investments subject to repo transactions amount to TL 7.010.890 (December 31, 2010- TL 3.464.024).

g. Information on investments in associates (net):

1. General information on unconsolidated investments in associates:

No	Description	Address (City/ Country)	The Parent Bank's shareholding percentage - if different voting percentage (%)	Bank's risk group shareholding percentage (%)
1	Kredi Kayıt Bürosu ⁽¹⁾	Istanbul/Turkey	18,18	18,18
2	Bankalararası Kart Merkezi A.Ş. ⁽²⁾	Istanbul/Turkey	9,98	9,98

No	Total assets	Shareholders' equity	Total fixed assets	Interest income	Income from marketable securities portfolio	Current period profit / loss	Prior period profit / loss	Market value
1	39.034	27.914	2.552	1.933	4	12.265	9.905	-
2	21.526	17.174	6.364	430	-	1.309	2.525	-

(1) Financial statement information disclosed above shows September 30, 2011 results.

(2) Financial statement information disclosed above shows June 30, 2011 results.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

2. Consolidated investments in associates:

2 (i). Information on consolidated investments in associates:

No	Description	Address (City/Country)	The Parent Bank's share holding percentage - if different voting percentage (%)	Other Shareholders' shareholding percentage (%)
1	Banque de Commerce et de Placements S.A.	Geneva/ Switzerland	30,67	69,33

2 (ii). Main financial figures of the consolidated investments in associates in the order of the above table:

No	Total assets	Shareholders' equity	Total fixed assets	Interest income	Income from marketable securities portfolio	Current period profit / loss	Prior period profit / loss	Market value
1	5.263.368	321.216	7.458	64.499	11.346	42.741	48.211	-

Financial statement information disclosed above shows September 30, 2011 results.

2 (iii). Movement of consolidated investments in associates:

	September 30, 2011	December 31, 2010
Balance at the beginning of the period	71.906	58.939
Movements during the period	26.599	12.967
Purchases	-	-
Bonus shares obtained	-	-
Share of current year income	13.105	8.744
Sales	-	-
Revaluation (decrease)/increase ⁽¹⁾	13.494	4.223
Impairment provision	-	-
Balance at the end of the period	98.505	71.906
Capital commitments	-	-
Share holding percentage at the end of the period (%)	30,67	30,67

⁽¹⁾ Includes TL 2.489 (December 31, 2010 – TL 2.069) of dividend received in the current period.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

2 (iv). Information on sectors and the carrying amounts of consolidated investments in associates:

	September 30, 2011	December 31, 2010
Banks	98.505	71.906
Insurance companies	-	-
Factoring companies	-	-
Leasing companies	-	-
Finance companies	-	-
Other financial investments	-	-
Total financial investments	98.505	71.906

2 (v). Investments in associates quoted in a stock exchange: None.

h. Information on subsidiaries (net):

1. Unconsolidated subsidiaries:

1 (i). Information on unconsolidated subsidiaries:

Since the subsidiaries below are not financial subsidiaries, the related subsidiaries are unconsolidated and are carried at restated cost.

Description	Address (City/ Country)	The Parent Bank's shareholding percentage - if different voting percentage (%)	Bank's risk group share holding percentage (%)
1 Yapı Kredi-Kültür Sanat Yayıncılık Tic. ve San. A.Ş.	Istanbul/Turkey	99,99	100,00
2 Enternasyonal Turizm Yatırım A.Ş.	Istanbul/Turkey	99,96	99,99

1 (ii). Main financial figures of the subsidiaries in the order of the above table:

	Total assets	Shareholders' equity	Total fixed assets	Interest income	Income from marketable securities portfolio	Current period profit / loss	Prior period profit /loss	Market value
1	12.485	10.445	171	37	-	884	867	-
2	37.378	23.274	3.960	757	3	577	1.085	-

Financial statement information disclosed above shows September 30, 2011 results.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

2. Information on consolidated subsidiaries:

2 (i). Information on consolidated subsidiaries:

	Description	Address (City/ Country)	The Parent Bank's shareholding percentage if different voting percentage (%)	Bank's risk group share holding percentage (%)
1	Yapı Kredi Holding B.V.	Amsterdam/Netherlands	100,00	100,00
2	Yapı Kredi Menkul	Istanbul/Turkey	99,98	99,99
3	Yapı Kredi Faktoring	Istanbul/Turkey	99,95	100,00
4	Yapı Kredi Moscow	Moscow/Russia	99,84	100,00
5	Yapı Kredi Sigorta A.Ş.	Istanbul/Turkey	74,01	93,94
6	Yapı Kredi Leasing	Istanbul/Turkey	98,85	99,58
7	Yapı Kredi B Tipi Yatırım Ortaklığı A.Ş.	Istanbul/Turkey	11,09	56,07
8	Yapı Kredi Emeklilik A.Ş.	Istanbul/Turkey	-	100,00
9	Yapı Kredi Portföy	Istanbul/Turkey	12,65	99,99
10	Yapı Kredi Bank NV ⁽¹⁾	Amsterdam/Netherlands	67,24	100,00
11	Yapı Kredi Azerbaijan ⁽²⁾	Baku/Azerbaijan	99,80	100,00

Although Yapı Kredi Diversified Payment Rights Finance Company ("Special Purpose Entity") which is established for securitisation transactions of Yapı Kredi is not a subsidiary, it is included in the consolidation as the Bank has a control of 100%.

(1) Includes the balances for Sticking Custody Services YKB.

(2) Includes the balances for Yapı Kredi Invest LLC.

2 (ii). Main financial figures of the consolidated subsidiaries in the order of the table below:

	Total assets	Shareholders' equity	Total fixed assets	Interest income	Income from marketable securities portfolio	Current period profit / loss	Prior period profit /loss	Market value ⁽¹⁾
1	111.441	111.350	-	-	-	(93)	999	-
2	1.245.893	281.764	5.526	56.734	9.902	75.738	66.920	-
3	1.786.641	115.889	561	94.738	-	32.584	16.151	-
4	336.101	105.001	9.755	14.812	1.620	7.678	6.472	-
5	947.050	346.445	18.841	26.344	17.390	42.619	45.428	1.036.000
6	2.987.934	843.014	2.898	164.073	-	107.808	70.675	1.633.800
7	80.032	77.716	29	2.086	(646)	77	3.557	32.700
8	813.861	138.967	19.110	12.196	6.611	27.944	15.747	-
9	75.682	67.450	773	4.708	39	31.513	39.414	-
10	4.337.794	536.236	611	122.543	16.977	23.214	58.653	-
11	446.980	124.518	9.299	18.035	781	10.375	10.952	-

(1) Calculated with the ISE market prices as of September 30, 2011 considering the total number of shares.

Financial statement information disclosed above has been obtained from the financial statements of subsidiaries as at September 30, 2011.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

2 (iii). Movement schedule of consolidated subsidiaries:

	September 30, 2011	December 31, 2010
Balance at the beginning of the period	1.787.541	1.779.648
Movements during the period	11.382	7.893
Purchases	-	-
Transfers	-	-
Bonus shares obtained ^{(1) (2)}	11.382	7.893
Share of current year income	-	-
Sales	-	-
Revaluation (decrease) / increase	-	-
Impairment provision	-	-
Balance at the end of the period	1.798.923	1.787.541
Capital commitments	-	-
Share holding percentage at the end of the period (%)	-	-

(1) As a result of the General Assembly Meeting of Yapı Kredi Azerbaijan registered on April 30, 2010; capital was increased by 4.392 thousand AZN from the profit of 2009.

(2) As a result of the General Assembly Meeting of Yapı Kredi Azerbaijan registered on April 20, 2011; capital was increased by 6.499 thousand AZN from the profit of 2010.

2 (iv). Sectoral information on financial subsidiaries and the related carrying amounts:

	September 30, 2011	December 31, 2010
Financial subsidiaries		
Banks	297.519	286.137
Insurance companies	148.019	148.019
Factoring companies	183.325	183.325
Leasing companies	722.491	722.491
Finance companies	-	-
Other financial subsidiaries	447.569	447.569
Total financial subsidiaries	1.798.923	1.787.541

2 (v). Subsidiaries quoted to stock exchange:

	September 30, 2011	December 31, 2010
Quoted on domestic stock exchanges	876.095	876.095
Quoted on foreign stock exchanges	-	-
Total of subsidiaries quoted to stock exchanges	876.095	876.095

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

i. Information on joint ventures (net):

1. Unconsolidated joint ventures: None.
2. Consolidated joint ventures :
- 2 (i). Information on consolidated Joint Ventures:

Joint ventures	The Parent Bank's shareholding percentage	Group's shareholding percentage	Current assets	Non- current assets	Long term liabilities	Income	Expense
Yapı Kredi Koray Gayrimenkul Yatırım Ortaklığı A.Ş.	30,45	30,45	84.442	20.592	362	16.392	(23.609)

Financial statement information disclosed above shows September 30, 2011 results.

j. Information on lease receivables (net):

- 1) Breakdown according to maturities:

	September 30, 2011		December 31, 2010	
	Gross	Net	Gross	Net
Less than 1 year	1.115.838	921.379	881.135	714.985
Between 1- 4 years	1.604.241	1.381.927	1.151.085	991.929
More than 4 years	412.447	372.869	299.234	282.700
Total	3.132.526	2.676.175	2.331.454	1.989.614

- 2) Information for net investments in finance leases:

	September 30, 2011		December 31, 2010	
	TL	FC	TL	FC
Gross lease receivables	614.582	2.517.944	461.940	1.869.514
Unearned financial income from leases (-)	(102.247)	(354.104)	(77.495)	(264.345)
Amount of cancelled leases (-)	-	-	-	-
Total	512.335	2.163.840	384.445	1.605.169

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

k. Information on hedging derivative financial assets:

	September 30, 2011		December 31, 2010	
	TL	FC	TL	FC
Fair value hedge	212.345	-	34.463	-
Cash flow hedge	-	136	-	3.738
Foreign net investment hedge	-	-	-	-
Total	212.345	136	34.463	3.738

Starting from March 1, 2009, the Parent Bank has hedged the possible fair value effects of changes in market interest rates on part of its fixed interest TL mortgage and car loan portfolios and fair value effects of changes in foreign exchange rates on part of its foreign currency denominated funds using cross-currency interest rate swaps. The net carrying value of hedging instruments at September 30, 2011 is an asset amounting to TL 146.181 (December 31, 2010 - TL 279.454 liability) At September 30, 2011, the fair value difference of the hedging instruments since the inception date is TL 249.181 (December 31, 2010 - TL 240.233) and the fair value difference of the hedged loans is TL 237.147 (December 31, 2010 - TL 224.429)

In order to hedge its cash flow risk from liabilities, the Bank started to apply cash flow hedge accounting from January 1, 2010 onwards. The hedging instruments are USD, EUR and TL interest rate swaps with floating receive, fixed pay legs, and the hedged item is the cash outflows due to financing of interests of repricing USD, EUR and TL deposits and repos.

l. Information on intangible assets:

	September 30, 2011	December 31, 2010
Net book value at the beginning of the period	1.243.080	1.194.649
Additions during the period	51.955	90.675
Unused and disposed items (-)	-	(159)
Impairment reversal	-	4.015
Amortisation expenses (-)	(44.039)	(46.100)
Foreign exchange valuation differences	213	-
Net book value at the closing of the period	1.251.209	1.243.080

m. Information on investment property:

None (December 31, 2010 - None).

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

n. Movement schedule of assets held for resale and related to discontinued operations:

	September 30, 2011	December 31, 2010
Net book value at the beginning of the period	82.416	88.680
Additions	44.904	58.076
Disposals, net (-)	(34.652)	(64.936)
Impairment reversal	844	2.752
Impairment (-)	(169)	(219)
Depreciation (-)	(1.736)	(1.937)
Net book value at the end of the period	91.607	82.416
Cost at the end of the period	98.579	88.875
Accumulated depreciation at the end of the period (-)	(6.972)	(6.459)
Net book value at the end of the period	91.607	82.416

As of September 30, 2011, the Parent Bank booked impairment provision on assets held for resale with an amount of TL10.258 (December 31, 2010 - TL 10.933).

o. Information on other assets:

As of September 30, 2011, other assets do not exceed 10% of the total assets.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

II. Explanations and notes related to consolidated liabilities:

a. Information on deposits:

1. Information on maturity structure of deposits/collected funds:

1 (i). September 30, 2011:

	Demand	With 7 days notifications	Up to 1 month	1-3 months	3-6 months	6 months - 1 year	1 year and over	Total
Saving deposits	2.017.654	1.553	1.710.019	13.853.567	761.678	736.453	1.619.699	20.700.623
Foreign currency deposits	4.820.782	125.935	4.155.064	17.379.102	1.191.649	336.630	1.411.324	29.420.486
Residents in Turkey	4.065.152	18.230	3.973.677	15.822.106	862.082	109.282	717.667	25.568.196
Residents abroad	755.630	107.705	181.387	1.556.996	329.567	227.348	693.657	3.852.290
Public sector deposits	610.683	-	465	108.772	-	154	571	720.645
Commercial deposits	2.530.507	3.429	1.962.668	4.961.183	1.603.052	256.165	105.232	11.422.236
Other institutions deposits	34.126	-	16.824	454.958	83.213	187	48.379	637.687
Precious metals vault	1.008.195	-	304.180	16.149	14.994	20.138	-	1.363.656
Bank deposits	319.936	95.817	263.629	274.761	210.642	247.703	176.823	1.589.311
The CBRT	-	-	-	-	-	-	-	-
Domestic banks	159.481	-	115.490	17.330	-	-	3.037	295.338
Foreign banks	152.901	95.817	148.139	257.431	210.642	247.703	173.786	1.286.419
Participation banks	7.554	-	-	-	-	-	-	7.554
Other	-	-	-	-	-	-	-	-
Total	11.341.883	226.734	8.412.849	37.048.492	3.865.228	1.597.430	3.362.028	65.854.644

1 (ii). December 31, 2010:

	Demand	With 7 days notifications	Up to 1 month	1-3 months	3-6 months	6 months - 1 year	1 year and over	Total
Saving deposits	1.812.754	22.181	4.586.189	10.872.860	210.498	37.412	114.112	17.656.006
Foreign currency deposits	4.514.769	30.503	4.023.430	11.273.139	528.832	262.680	722.673	21.356.026
Residents in Turkey	3.838.021	16.092	3.864.195	9.765.581	250.273	149.836	341.088	18.225.086
Residents abroad	676.748	14.411	159.235	1.507.558	278.559	112.844	381.585	3.130.940
Public sector deposits	320.906	-	14.937	60.880	543	-	-	397.266
Commercial deposits	2.404.752	-	3.069.321	6.377.905	143.864	3.206	70.318	12.069.366
Other institutions deposits	34.853	-	85.306	1.478.796	288	65	990	1.600.298
Precious metals vault	237.777	-	-	45.422	16.774	17.917	26.252	344.142
Bank deposits	193.023	149.383	419.083	163.480	196.727	229.668	432.534	1.783.898
The CBRT	-	-	-	-	-	-	-	-
Domestic banks	68.087	-	357.762	4.022	-	-	246.138	676.009
Foreign banks	110.663	149.383	61.321	159.458	196.727	229.668	186.396	1.093.616
Participation banks	14.273	-	-	-	-	-	-	14.273
Other	-	-	-	-	-	-	-	-
Total	9.518.834	202.067	12.198.266	30.272.482	1.097.526	550.948	1.366.879	55.207.002

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

2. Information on saving deposits insurance:

2 (i). Information on saving deposits under the guarantee of the saving deposits insurance fund and exceeding the limit of deposit insurance fund (Represents information regarding the Parent Bank):

	Under the guarantee of deposit insurance		Exceeding limit of the deposit insurance	
	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Saving deposits				
Saving deposits	8.590.442	8.779.823	12.073.646	8.651.347
Foreign currency savings deposit	2.205.699	2.448.173	8.124.654	5.572.934
Other deposits in the form of savings deposits	575.854	117.017	628.690	196.827
Foreign branches' deposits under foreign authorities' insurance	-	-	-	-
Off-shore banking regions' deposits under foreign authorities' insurance	-	-	-	-

2 (ii). Saving deposits which are not under the guarantee of saving deposit insurance fund of real persons (Represents information regarding the Parent Bank):

	September 30, 2011	December 31, 2010
Foreign branches' deposits and other accounts	-	-
Saving deposits and other accounts of controlling shareholders and deposits of their mother, father, spouse, children in care	-	-
Saving Deposits and other accounts of president and members of board of directors, CEO and vice presidents and deposits of their mother, father, spouse, children in care	32.194	21.080
Saving deposits and other accounts in scope of the property holdings derived from crime defined in article 282 of Turkish criminal law no:5237 dated 26.09.2004		-
Saving deposits in deposit bank which is established in Turkey in order to engage in off-shore banking activities solely	11.672	116.231

b. Information on trading derivative financial liabilities:

	September 30, 2011		December 31, 2010	
	TL	FC	TL	FC
Forward transactions	56.920	15.167	38.372	321
Swap transactions	242.708	76.988	203.768	31.881
Futures transactions	-	-	-	-
Options	116.739	47.644	52.087	32.739
Other	-	-	-	-
Total	416.367	139.799	294.227	64.941

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

c. Information on borrowings:

1. Information on borrowings:

	September 30, 2011		December 31, 2010	
	TL	FC	TL	FC
The CBRT borrowings	-	-	-	-
From domestic banks and institutions	715.922	331.792	1.078.428	360.655
From foreign banks, institutions and funds	494.031	11.336.147	948.183	7.685.804
Total	1.209.953	11.667.939	2.026.611	8.046.459

2. Information on maturity structure of borrowings:

	September 30, 2011		December 31, 2010	
	TL	FC	TL	FC
Short-term	780.967	4.519.371	1.510.635	4.099.579
Medium and long-term	428.986	7.148.568	515.976	3.946.880
Total	1.209.953	11.667.939	2.026.611	8.046.459

d. Information on marketable securities issued

The Parent Bank has a securitisation borrowing deal from Standard Chartered Bank and Unicredit Markets and Investment Banking amounting USD 441 million and EUR 225 million, the equivalent of TL 1.344.689 using Yapı Kredi Diversified Payment Rights Finance Company ("Special Purpose Entity") as an intermediary and Assured Guaranty, MBIA, Radian, Ambac, FGIC and XL Capital as guarantors. The borrowing has floating interest rates based on Euribor/Libor, the maturity is between 2014 and 2015. The repayments commenced in 2010, and during 2011, a total of TL 284.928 is paid (2010 – TL 345.191).

The Bank also made a securitisation borrowing deal at August and September 2011, from Standard Chartered Bank, Wells Fargo, West LB and SMBC amounting USD 225 million and EUR 206 million, the equivalent of TL 909.805 using Yapı Kredi Diversified Payment Rights Finance Company ("Special Purpose Entity"). The borrowing has floating interest rates based on Euribor/Libor, the maturity is between 2016 and 2023.

On June 8,9,10, 2011, the Parent Bank issued bonds amounting to TL 1.000.000 (nominal) at an interest rate of 8,67% with 175 days to maturity. As per the related legislation these bonds could be re-purchased and net outstanding balances are reflected on the accompanying financial statements.

e. Information on other liabilities:

As of September 30, 2011, other liabilities do not exceed 10% of the total balance sheet commitments.

f. Information on lease payables:

1. Information on financial leasing agreements:
None (December 31, 2010 - None).

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

2. Information on operational leasing agreements:

The Parent Bank enters into operational leasing agreements annually for some of its branches and ATMs. The leases are prepaid and accounted as prepaid expenses under "Other Assets". The Bank has no liability that stems from operational leasing agreements.

g. Information on hedging derivative financial liabilities:

	September 30, 2011		December 31, 2010	
	TL	FC	TL	FC
Fair value hedge ⁽¹⁾	66.164	-	313.917	-
Cash flow hedge ⁽¹⁾	188.348	449.155	38.108	101.638
Foreign net investment hedge	-	-	-	-
Total	254.512	449.155	352.025	101.638

(1) Represented as explained in Note I.k of Section Five

h. Information on provisions:

1. Information on general provisions:

	September 30, 2011	December 31, 2010
Provisions for Group I loans and receivables	717.873	596.325
Provisions for Group II loans and receivables	87.700	108.673
Provisions for non cash loans	65.907	61.702
Other	100.841	60.153
Total	972.321	826.853

2. Information on reserve for employee rights:

In accordance with Turkish Labour Law, the reserve for employment termination benefits is calculated as the present value of the probable future obligation in case of the retirement of employees. TAS 19 necessitates actuarial valuation methods to calculate the liabilities of enterprises.

The following actuarial assumptions were used in the calculation of total liabilities:

	September 30, 2011	December 31, 2010
Discount rate (%)	4,66	4,66
Possibility of being eligible for retirement (%)	94,48	94,71

The principal actuarial assumption is that the maximum liability will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the effects of future inflation. As the annual ceiling is revised semi-annually, the ceiling of full TL 2.731,85 effective from July 1, 2011 (July 1, 2010 - full TL 2.517.01) has been taken into consideration in calculating the reserve for employment termination benefits.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

Movement of employment termination benefits liability in the balance sheet:

	September 30, 2011	December 31, 2010
Prior period ending balance	101.700	100.482
Changes during the period	22.871	19.705
Paid during the period	(21.234)	(18.385)
Foreign currency differences	623	(102)
Balance at the end of the period	103.960	101.700

In addition, the Group has accounted for unused vacation rights provision amounting to TL 81.609 as of September 30, 2011 (December 31, 2010 - TL 80.267).

3. Other provisions:

	September 30, 2011	December 31, 2010
Pension fund provision	838.036	838.036
Non-cash loan provision	119.366	127.958
Provision for possible risks ⁽¹⁾	105.412	88.826
Provisions on credit cards and promotion campaigns related to banking services	37.449	39.697
Legal risk provision ⁽¹⁾	44.036	35.886
Provision on export commitment estimated tax and funds liability	36.127	39.486
Other	83.512	170.322
Total	1.263.938	1.340.211

⁽¹⁾ Considered as provisions for possible risks and charges.

4. Information on provisions related with the foreign currency difference of foreign currency indexed loans:

As of September 30, 2011, the provision related to the foreign currency difference of foreign currency indexed loans amounts to TL 4.809 (December 31, 2010 – TL 21.327). Provisions related to the foreign currency difference of foreign currency indexed loans are netted from the loan amount in the financial statements.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

i. Information on taxes payable:

(i) Information on taxes payable:

	September 30, 2011	December 31, 2010
Corporate Tax Payable	97.474	122.306
Taxation of Marketable Securities	75.505	81.688
Property Tax	1.507	1.359
Banking Insurance Transaction Tax ("BITT")	42.795	35.985
Foreign Exchange Transaction Tax	-	-
Value Added Tax Payable	1.767	3.437
Other	30.051	23.497
Total	249.099	268.272

As at September 30, 2011, the Bank has submitted its application to Boğaziçi Corporate Tax Authority and Taxpayers Office to claim for the benefit of the tax amnesty (the Law numbered 6111) regarding 6 tax penalties resulting from tax inspectors' review of 2005, 2006, 2007, 2009 and 2010 fiscal years. As a result of this application, the restructured tax payable amounting to TL 1.332 is paid on due date at once.

In addition, Group companies which have submitted application regarding this law have paid amounts of no significance.

(ii) Information on premium payables:

	September 30, 2011	December 31, 2010
Social security premiums – employee	926	962
Social security premiums – employer	1.090	995
Bank pension fund premiums – employee	8.330	7.291
Bank pension fund premiums – employer	8.687	7.604
Pension fund deposit and provisions – employee	-	-
Pension fund deposit and provisions – employer	-	-
Unemployment insurance – employee	655	581
Unemployment insurance – employer	1.314	1.163
Other	-	-
Total	21.002	18.596

(iii) Information on deferred tax liability:

There is no deferred tax liability (December 31, 2010 – TL 2.132) reflected in the consolidated financial statements after the deferred tax assets and liabilities of each entity in consolidation has been net off in their standalone financial statements as per TAS 12.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

j. Information on subordinated loans:

	September 30, 2011		December 31, 2010	
	TL	FC	TL	FC
From domestic banks	-	-	-	-
From other domestic institutions	-	-	-	-
From foreign banks	-	2.598.485	-	2.110.274
From other foreign institutions	-	-	-	-
Total	-	2.598.485	-	2.110.274

At March 31, 2006, Yapı Kredi obtained a subordinated loan amounting to EUR 500 million, with 10 years maturity and a repayment option at the end of five years. The interest rate was determined as EURIBOR+2% for the first five years. The loan was obtained from Merrill Lynch Capital Corporation with UniCredito Italiano S.p.A. as guarantor. In addition, the subordinated loan obtained by Koçbank on April 27, 2006 amounting to EUR 350 million, with 10 years maturity and a repayment option at the end of 5 years has been transferred to the Bank. The interest rate is determined as EURIBOR+2,25% for the first five years. The loan was obtained from Goldman Sachs International Bank with Unicredit S.p.A. as guarantor. The Parent Bank has not exercised the early repayment option related to these two loans which was available as of the date of these financial statements. In addition, the Parent Bank obtained a subordinated loan on June 25, 2007 amounting to EUR 200 million, with 10 years maturity and a repayment option at the end of 5 years. The interest rate is determined as EURIBOR+1,85% for the first 5 years. The loan was obtained from Citibank, N.A., London Branch with Unicredito Italiano SpA as guarantor. With the written approvals of the BRSA dated April 3, 2006, May 2, 2006 and June 19, 2007, the loans have been approved as subordinated loans and can be taken into consideration as supplementary capital within the limits of the Capital Adequacy Regulation. According to the Regulation, subordinated loans obtained from Merrill Lynch Capital Corporation and Goldman Sachs International Bank are considered in the supplementary capital calculation at the rate of 80% as the remaining maturity of these loans is less than 5 years.

k. Information on shareholders' equity:

1. Presentation of paid-in capital

	September 30, 2011	December 31, 2010
Common stock	4.347.051	4.347.051
Preferred stock	-	-

2. Paid-in capital amount, explanation as to whether the registered share capital system is applied and if so, amount of registered share capital ceiling:

The Parent Bank's paid-in-capital is amounting to TL 4.347.051 and in accordance with the decision taken in the Ordinary General Assembly at April 7, 2008, the Bank has switched to the registered capital system and the registered share capital ceiling is TL 5.000.000.

3. Information on the share capital increases during the period and the sources:
None (December 31, 2010 - None).

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

4. Information on transfers from capital reserves to capital during the current period: None.
5. Information on capital commitments, until the end of the fiscal year and the subsequent interim period: None.
6. Information on prior periods indicators on the Group's income, profitability, liquidity, and possible effects of these future assumptions on the Group's equity due to uncertainties of these indicators:

The interest, liquidity, and foreign exchange risk related to on-balance sheet and off-balance sheet assets and liabilities are managed by the Parent Bank within several risk and legal limits.
7. Privileges on the corporate stock: None.
8. Information on marketable securities valuation differences:

	September 30, 2011		December 31, 2010	
	TL	FC	TL	FC
From investments in associates, subsidiaries, and joint ventures	-	-	-	-
Valuation difference	37.319	6.245	108.075	63.235
Foreign currency difference ⁽¹⁾	214.427	16.272	79.187	2.300
Total	251.746	22.517	187.262	65.535

(1) Includes current period foreign currency differences.

I. Information on minority interest:

	September 30, 2011	September 30, 2010
Period opening balance	63.095	57.261
Current period income/(loss)	5.014	4.477
Dividends paid	(1.808)	(693)
Translation differences	(368)	(167)
Period ending balance	65.933	60.878

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

III. Explanations and notes related to consolidated off-balance sheet accounts

a. Information on off balance sheet commitments:

1. The amount and type of irrevocable commitments:

	September 30, 2011	December 31, 2010
Commitments on credit card limits	13.390.839	11.727.679
Loan granting commitments	4.959.734	3.303.500
Commitments for cheques	4.141.074	3.653.626
Other irrevocable commitments	4.164.609	3.939.925
Total	26.656.256	22.624.730

2. Type and amount of probable losses and obligations arising from off-balance sheet items:

There are no material probable losses and obligations arising from off-balance sheet items. Obligations arising from off-balance sheet are disclosed in "Off-balance sheet commitments". The Group has recorded a general provision for its non-cash loans amounting to TL 65.907 (December 31, 2010 – TL 61.702) and a specific provision regarding non-cash loans amounting to TL 119.366 (December 31, 2010 – TL 127.958).

- 2 (i). Non-cash loans including guarantees, bank avalized and acceptance loans, collaterals that are accepted as financial guarantees and other letter of credits:

	September 30, 2011	December 31, 2010
Bank acceptance loans	163.360	165.797
Letter of credits	5.316.253	3.999.873
Other guarantees and collaterals	2.299.262	579.420
Total	7.778.875	4.745.090

- 2 (ii). Guarantees, surety ships and other similar transactions:

	September 30, 2011	December 31, 2010
Temporary letter of guarantees	1.638.299	1.020.700
Definite letter of guarantees	12.950.611	10.637.897
Advance letter of guarantees	2.324.971	2.100.373
Letter of guarantees given to customs	1.015.278	807.679
Other letter of guarantees	473.388	380.814
Total	18.402.547	14.947.463

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

3 (i). Total amount of non-cash loans:

	September 30, 2011	December 31, 2010
Non-cash loans given against cash loans	335.780	297.715
With original maturity of 1 year or less than 1 year	36.234	84.962
With original maturity of more than 1 year	299.546	212.753
Other non-cash loans	25.845.642	19.394.838
Total	26.181.422	19.692.553

3 (ii). Information on non-cash loans classified in Group I and Group II:

September 30, 2011	Group I		Group II⁽¹⁾	
	TL	FC	TL	FC
Non-cash loans				
Letters of guarantee	9.293.925	8.968.999	97.001	42.622
Bank acceptances	-	161.368	-	1.992
Letters of credit	8.007	5.307.775	-	471
Endorsements	-	-	-	-
Underwriting commitments	-	-	-	-
Factoring guarantees	-	-	-	-
Other commitments and contingencies	809.730	1.485.139	-	4.393
Total	10.111.662	15.923.281	97.001	49.478

December 31, 2010	Group I		Group II⁽¹⁾	
	TL	FC	TL	FC
Non-cash loans				
Letters of guarantee	7.698.324	7.133.344	81.773	34.022
Bank acceptances	-	165.797	-	-
Letters of credit	12.337	3.987.368	-	168
Endorsements	-	-	-	-
Underwriting commitments	-	-	-	-
Factoring guarantees	-	-	-	-
Other commitments and contingencies	5.675	571.843	-	1.902
Total	7.716.336	11.858.352	81.773	36.092

(1) Also includes balances of the Groups III., IV. and V.

b. Information on contingent liabilities and assets:

The Group has recorded a provision of TL 44.036 (December 31, 2010 – TL 35.886) for litigation against the Bank and has accounted for it in the financial statements under the "Other provisions" account.

c. Information on services in the name and account of others:

The Group's activities such as intermediation and custody to serve the investment needs of customers are followed up under off balance sheet accounts.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

IV. Explanations and notes related to consolidated income statement:

a. Information on interest income:

1. Information on interest income on loans:

	September 30, 2011		September 30, 2010	
	TL	FC	TL	FC
Short-term loans ⁽¹⁾	1.680.030	159.498	1.636.432	200.396
Medium/long-term loans ⁽¹⁾	1.476.985	689.679	1.142.357	404.707
Interest on loans under follow-up	73.876	97	60.519	36
Premiums received from resource utilisation support fund	-	-	-	-
Total	3.230.891	849.274	2.839.308	605.139

(1) Includes fees and commissions received for cash loans.

2. Information on interest income on banks:

	September 30, 2011		September 30, 2010	
	TL	FC	TL	FC
From the CBRT	-	-	-	-
From domestic banks	43.940	18.559	18.564	10.367
From foreign banks	1.938	20.262	5.363	14.911
Headquarters and branches abroad	-	-	-	-
Total	45.878	38.821	23.927	25.278

3. Information on interest income on marketable securities:

	September 30, 2011		September 30, 2010	
	TL	FC	TL	FC
From trading financial assets	26.960	779	7.272	5.484
From financial assets at fair value through profit or loss	-	-	-	-
From available-for-sale financial assets	373.126	49.904	103.299	41.477
From held-to-maturity investments	275.110	460.944	415.355	374.581
Total	675.196	511.627	525.926	421.542

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

4. Information on interest income received from associates and subsidiaries:

	September 30, 2011	September 30, 2010
Interests received from associates and subsidiaries	944	546

b. Information on interest expense:

1. Information on interest expense on borrowings:

	September 30, 2011		September 30, 2010	
	TL	FC	TL	FC
Banks	112.074	276.724	115.594	150.789
The CBRT	-	-	-	-
Domestic banks	23.046	8.467	47.786	9.119
Foreign banks	89.028	268.257	67.808	141.670
Headquarters and branches abroad	-	-	-	-
Other institutions	-	104	-	144
Total⁽¹⁾	112.074	276.828	115.594	150.933

(1) Includes fees and commissions related to borrowings.

2. Information on interest expense to associates and subsidiaries:

	September 30, 2011	September 30, 2010
Interests paid to associates and subsidiaries	393	1.020

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

3. Maturity structure of the interest expense on deposits:

Account name	Demand deposit	Time deposit					Accumulating deposit	Total	September 30, 2010
		Up to 1 month	Up to 3 months	Up to 6 months	Up to 1 year	More than 1 year			
TL									
Bank deposits	157	3.509	9.493	-	-	483	-	13.642	12.088
Saving deposits	27	136.117	810.473	33.116	24.535	70.454	-	1.074.722	959.280
Public sector deposits	-	135	690	429	9	21	-	1.284	4.412
Commercial deposits	43	105.987	371.762	53.773	5.648	6.846	-	544.059	377.889
Other deposits	-	4.906	37.317	11.276	7	468	-	53.974	39.019
Deposits with 7 days notification	-	-	-	-	-	-	-	-	-
Total	227	250.654	1.229.735	98.594	30.199	78.272	-	1.687.681	1.392.688
FC									
Foreign currency deposits	1.596	128.293	351.182	31.131	7.149	20.625	454	540.430	314.126
Bank deposits	-	2.689	5.010	5.616	5.764	4.089	-	23.168	22.305
Deposits with 7 days notification	-	-	-	-	-	-	-	-	-
Precious metal vault	-	529	29	34	43	34	-	669	305
Total	1.596	131.511	356.221	36.781	12.956	24.748	454	564.267	336.736
Grand total	1.823	382.165	1.585.956	135.375	43.155	103.020	454	2.251.948	1.729.424

c. Information on trading gain/loss (net):

	September 30, 2011	September 30, 2010
Gain	15.363.767	13.728.583
Gain from capital market transactions	53.398	72.602
Derivative financial transaction gains	10.488.904	7.929.409
Foreign exchange gains	4.821.465	5.726.572
Loss(-)	(15.431.470)	(13.730.412)
Loss from capital market transactions	(21.955)	(4.810)
Derivative financial transaction losses	(10.827.903)	(8.374.830)
Foreign exchange loss	(4.581.612)	(5.350.772)
Net gain/loss	(67.703)	(1.829)

d. Information on gain/loss from derivative financial transactions:

Net gain from foreign exchange rates related to derivative financial transactions is TL 39.040 (September, 30 2010 – TL 72.544 loss).

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

e. Information on other operating income:

Other operating income mainly results from collections from provisions recorded as expense, release of provisions and sale of fixed assets and net insurance income.

f. Provision for impairment of loans and other receivables:

	September 30, 2011	September 30, 2010
Specific provisions for loans and other receivables	341.963	504.256
III. Group loans and receivables	124.512	4.892
IV. Group loans and receivables	20.834	3.400
V. Group loans and receivables	196.617	495.964
General provision expenses	167.885	1.126
Provision expense for possible risks	19.448	27.137
Marketable securities impairment expenses	433	807
Financial assets at fair value through profit or loss	-	807
Available-for-sale financial assets	433	-
Impairment of investments in associates, subsidiaries and held-to-maturity securities	111.216	49.556
Investments in associates	-	-
Subsidiaries	-	-
Joint ventures	-	-
Held-to-maturity investments	111.216	49.556
Other	675	6.169
Total	641.620	589.051

g. Information related to other operating expenses:

	September 30, 2011	September 30, 2010
Personnel expenses	955.408	833.430
Reserve for employee termination benefits	1.973	3.414
Provision expense for pension fund	-	-
Impairment expenses of property and equipment	-	29
Depreciation expenses of property and equipment	113.566	106.590
Impairment expenses of intangible assets	-	-
Goodwill impairment expenses	-	-
Amortisation expenses of intangible assets	44.039	32.879
Impairment expenses of equity participations for which equity method is applied	-	-
Impairment expenses of assets held for resale	169	179
Depreciation expenses of assets held for resale	1.736	1.382
Impairment expenses of fixed assets held for sale and assets related to discontinued operations	-	-
Other operating expenses	657.765	632.154
Operational lease expenses	95.823	85.152
Repair and maintenance expenses	20.437	18.193
Advertising expenses	47.716	63.660
Other expense	493.789	465.149
Loss on sales of assets	662	1.932
Other	338.442	342.106
Total	2.113.760	1.954.095

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

h. Explanations on income/loss from continuing operations before tax:

Income before tax includes net interest income amounting to TL 2.697.354 (September 30, 2010 – TL 2.703.706), net fee and commission income amounting to TL 1.434.418 (September 30, 2010 – TL 1.270.993) and total other operating expense amounting TL 2.113.760 (September 30, 2010 – TL 1.954.095).

i. Provision for taxes on income from continuing operations:

As of September 30, 2011, the Group has current tax expense amounting to TL 376.575 (September 30, 2010 – TL 421.368) and deferred tax expense amounting to TL 18.957 (September 30, 2010 – TL 11.638).

Total provision for taxes on income for the current period and the previous period:

	September 30, 2011	September 30, 2010
Income before tax provision	2.048.228	2.303.300
Tax calculated with tax rate of 20%	409.646	460.660
Disallowables, deductions and other, net	(15.821)	(32.037)
Tax rate difference	1.707	4.383
Total provision for taxes on income	395.532	433.006

j. Information on net income/loss for the period:

- 1) The characteristics, dimension and recurrence of income or expense items arising from ordinary banking transactions do not require any additional explanation to understand the Group's current period performance. (September 30, 2010 - as a result of changes in the internal composition of the loan portfolio, the Parent Bank revised the general loan loss provisions by updating the related parameters used in the calculation of such provision. As a result of the revision, TL 114 million is recorded as income. Apart from this income, the characteristics, dimension and recurrence of income or expense items arising from ordinary banking transactions do not require any additional explanation to understand the Group's current period performance.)
- 2) Information on any change in the accounting estimates concerning the current period or future periods: None

k. Other items in income statement:

"Other fees and commissions received" in income statement mainly includes commissions and fees from credit cards and banking transactions.

l. Income/loss of minority interest:

	September 30, 2011	September 30, 2010
Income/(loss) of minority interest	5.014	4.477

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

V. Explanations and notes related to consolidated statement of cash flows

a. Information on cash and cash equivalents:

1. Components of cash and cash equivalents and the accounting policy applied in their determination:

Cash and foreign currency together with demand deposits at banks including the unrestricted amounts of CBRT are defined as "Cash"; money market placements and time deposits in banks with original maturities of less than three months are defined as "Cash Equivalents".

2. Effect of a change in the accounting policies: None.
3. Reconciliation of cash and cash equivalent items with balance sheet and cash flow statements:

3(i). Cash and cash equivalents at the beginning of period:

	September 30, 2011	September 30, 2010
Cash	4.127.914	2.032.372
Cash and effectives	702.227	655.382
Demand deposits in banks	3.425.687	1.376.990
Cash equivalents	1.977.118	3.015.471
Money market	970.536	1.581.164
Time deposits in banks	1.006.582	1.434.307
Total cash and cash equivalents	6.105.032	5.047.843

3(ii). Cash and cash equivalents at the end of the period:

	September 30, 2011	September 30, 2010
Cash	8.732.815	3.920.040
Cash and effectives	998.646	667.700
Demand deposits in banks	7.734.169	3.252.340
Cash equivalents	1.504.876	1.830.159
Money market	34.397	24.325
Time deposits in banks	1.470.479	1.805.834
Total cash and cash equivalents	10.237.691	5.750.199

b Information on cash and cash equivalents that are not in use due to legal limitations and other reasons:

As of September 30, 2011, the Group's reserve deposits, including those at foreign banks and the TL reserve requirements, amount to TL 10.623.243 (September 30, 2010 - TL 4.484.201 TL). There is also TL 105.277 blocked amount in foreign banks account.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

c. Explanations on other items in the statement of cash flows and the effects of the change in foreign exchange rates on cash and cash equivalents:

Decrease in "Other account" amounting to TL 2.078.589 (September 30, 2010 - TL - 741.415 decrease) which is classified under "Operating profit before changes in operating assets and liabilities" includes mainly fee and commissions given, other operating expenses excluding personnel expenses and foreign exchange gains/losses.

Increase in "Net increase/decrease in other liabilities" amounting to TL 1.749.186 (September 30, 2010 - TL 1.145.321 increase) which is classified under "Changes in operating assets and liabilities" mainly arises from changes in miscellaneous payables and other liabilities.

The effects of the change in foreign exchange rates on cash and cash equivalents are calculated as an increase approximately of TL 636.809 as of September 30, 2011 (September 30, 2010-TL 184.053 decrease).

VI. Explanations and notes related to Group's merger, transfers and companies acquired by Bank

None.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

VII. Explanations and notes related to Group's risk group

a. The volume of transactions relating to the Group's risk group, outstanding loan and deposit transactions and profit and loss of the period:

1. Information on loans of the Group's risk group:

September 30, 2011	Associates, subsidiaries and joint ventures		Direct and indirect shareholders of the Group		Other real and legal persons that have been included in the risk group	
	Cash	Non-cash	Cash	Non-cash	Cash	Non-cash
Group's risk group ⁽¹⁾⁽²⁾						
Loans and other receivables						
Balance at the beginning of the period	25.085	3.271	258.251	81.282	951.016	671.337
Balance at the end of the period	26.691	1.039	301.383	215.072	875.661	836.326
Interest and commission income received	944	10	5.325	783	48.196	4.078

(1) Defined in subsection 2 of the 49th article of the Banking Act No. 5411.

(2) The information in table above includes loans and due from banks as well as marketable securities.

December 31, 2010	Associates, subsidiaries and joint ventures		Direct and indirect shareholders of the Group		Other real and legal persons that have been included in the risk group	
	Cash	Non-Cash	Cash	Non-Cash	Cash	Non-cash
Groups' risk group ⁽¹⁾⁽²⁾						
Loans and other receivables						
Balance at the beginning of the period	5.128	1.281	68.674	54.926	545.598	550.074
Balance at the end of the period	25.085	3.271	258.251	81.282	951.016	671.337
Interest and commission income received ⁽³⁾	546	34	3.417	717	63.530	2.879

(1) Defined in subsection 2 of the 49th article of Banking Act No. 5411.

(2) The information in table above includes loans and due from banks as well as marketable securities.

(3) Income statement figures represent the balances for the 9 months period ended at September 30, 2010.

2. Information on deposits of the Group's risk group:

Group's risk group ⁽¹⁾⁽²⁾	Associates, subsidiaries and joint ventures		Direct and indirect shareholders of the Group		Other real and legal persons that have been included in the risk group	
	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Deposit						
Beginning of the period	11.699	41.731	4.367.079	3.060.980	5.279.564	2.330.627
End of the period	11.895	11.699	6.303.837	4.367.079	5.870.215	5.279.564
Interest expense on deposits ⁽³⁾	393	1.020	196.928	138.668	189.937	100.810

(1) Defined in subsection 2 of the 49th Article of the Banking Act No. 5411.

(2) The information in table above includes borrowings, and repo transactions as well as deposits.

(3) December 31, 2010 columns represent balances for the 9 months period ended September 30, 2010.

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Explanations and notes related to consolidated financial statements (continued)

3. Information on forward and option agreements and other derivative instruments with the Group's risk group:

Group's risk group ⁽¹⁾	Associates , subsidiaries and joint ventures		Direct and indirect shareholders of the Group		Other real and legal persons that have been included in the risk group	
	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Transactions at fair value through profit or loss⁽²⁾						
Beginning of the period ⁽³⁾	38.038	-	187.782	378.169	642.637	710.036
End of the period ⁽³⁾	295.157	38.038	43.979	187.782	672.948	642.637
Total profit / loss⁽⁴⁾	(4.768)	-	1.508	(15.737)	(55.988)	(19.015)
Transactions for hedging purposes⁽²⁾						
Beginning of the period ⁽³⁾	-	-	-	-	-	-
End of the period ⁽³⁾	-	-	-	-	-	-
Total profit / loss⁽⁴⁾	-	-	-	-	-	-

(1) Defined in subsection 2 of the 49th Article of the Banking Act No. 5411.

(2) The Bank's derivative instruments are classified as "Financial instruments at fair value through profit or loss" or "Derivative financial instruments held for hedging" according to TAS 39.

(3) The balances at the beginning and end of the periods are disclosed as the total of buy and sell amounts of derivative financial instruments.

(4) December 31, 2010 columns represent profit / loss figures for the 9months period ended September 30, 2010.

b. Information regarding benefits provided to the Group's top management:

Salaries and benefits paid to the Group's top management amount to TL 25.252 as of September 30, 2011(September 30, 2010 – TL 24.875).

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

VIII. Explanations and notes related to subsequent event

1. In accordance with the "Change in communiqué regarding the reserve requirements" published in the Official gazette dated October 5, 2011; reserve requirement ratios for foreign currency liabilities are regulated as stated below. The new ratios are going to be valid starting from September 30, 2011.

Foreign currency liabilities;

- Demand, call deposits, private checking accounts, up to 1 month time deposit accounts, up to 3 months time deposit accounts, up to 6 months time deposit accounts and up to 1 year time deposit accounts 11%
- 1 year and over 1 year time deposit accounts 9%,
- Up to 1 year liabilities excluding deposit (1 year included) 11%,
- Up to 3 years liabilities excluding deposit (3 years included) 9%,
- Over 3 years liabilities excluding deposit 6%

2. In accordance with the "Change in communiqué regarding the reserve requirements" published in the Official gazette dated October 27, 2011; reserve requirement ratios for TL liabilities are regulated as stated below. The new ratios are going to be valid starting from October 28, 2011.

TL liabilities;

- Demand, notice deposits and private current accounts, up to 1 month time deposit accounts (1 month included) 11%,
- Up to 3 months time deposit accounts (3 months included) 11%,
- Up to 6 months time deposit accounts (6 months included) 8%,
- Up to 1 year time deposit accounts (1 year included) 6%,
- 1 year and over 1 year time deposit accounts and accumulating deposit accounts 5%,
- Up to 1 year liabilities excluding deposit (1 year included) 11%,
- Up to 3 year liabilities excluding deposit (3 year included) 8%,
- Over 3 year liabilities excluding deposit 5%

3. The Bank has completed the issuance of bonds with a nominal value of 150.000 TL, interest rate of 9.08% and maturity of 368 days (coupon payments on every 92 days) on October 5-6-7, 2011.
4. The Bank obtained a syndicated loan from participation of 42 international banks from 18 different countries, consisting of 2 credit tranches with 1 year maturity; one tranche amounting to USD 285 million with total cost of Libor+1% and the other tranche amounting to EUR 687 million with total cost of Euribor+1%. The agreement was signed on September 29, 2011. And the loan was available for usage of the Bank as at October 4, 2011.
5. On October 23rd 2011, an earthquake with 7.2 magnitude struck the city of Van. As of the date of these financial statements Yapı Kredi Sigorta A.Ş. has not been able to receive reliable claim information from policy holders in the area and the Group will be able to start the damage assessment process when ongoing search and rescue operations in the area are finalized.

(Convenience translation of publicly announced consolidated financial statements originally issued in Turkish, see in note I. of section three)

Yapı ve Kredi Bankası A.Ş.

Notes to consolidated financial statements September 30, 2011 (continued)

(Unless otherwise stated amounts are expressed in thousands of Turkish Lira ("TL"))

Section six

Other explanations and notes

I. Other explanations on the Group's operations

None.

Section seven

Explanations on independent review report

I. Explanations on independent auditor's review report

The consolidated financial statements for the period ended September 30, 2011 have been reviewed by Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş. (A member firm of Ernst & Young Global Limited). The independent auditor's review report dated November 3, 2011 is presented preceding the consolidated financial statements.

II. Explanations and notes prepared by independent auditor

None.

Yapı ve Kredi Bankası A.Ş.

**Interim condensed consolidated financial
statements at June 30, 2011 together with
independent auditor's review report**

Report on review of interim condensed consolidated financial statements

To the Board of Directors of Yapı ve Kredi Bankası A.Ş.

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Yapı ve Kredi Bankası A.Ş. and its subsidiaries ("the Group") as at June 30, 2011, comprising of the interim consolidated statement of financial position as at June 30, 2011 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, "Interim financial reporting" (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements 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. Consequently it 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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

August 10, 2011
İstanbul, Turkey

Index to the interim condensed consolidated financial statements at June 30, 2011

(These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

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Yapı ve Kredi Bankası A.Ş.

Interim consolidated statement of financial position at June 30, 2011

(Amounts expressed in thousands of TL unless otherwise indicated.

These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

	Note	June 30, 2011	December 31, 2010
Assets			
Cash and balances with central banks		9,915,744	6,034,426
Loans and advances to banks		2,896,346	3,372,107
Financial assets held for trading			
- Trading securities		556,161	376,591
- Derivative financial instruments	4	376,749	693,524
Loans and advances to customers	6	67,546,055	57,804,154
Hedging derivatives	4	84,531	38,201
Investment securities			
- Available-for-sale	7	7,757,096	5,881,756
- Held-to-maturity	7	12,251,274	12,974,944
Investment in associates and joint ventures accounted for using the equity method		111,300	94,171
Goodwill		1,023,528	1,023,528
Other intangible assets		269,374	263,667
Property and equipment		1,125,124	1,163,080
Deferred income tax assets	12	508,987	476,189
Other assets		1,768,573	1,613,895
Total assets		106,190,842	91,810,233
Liabilities			
Deposits from banks	8	10,389,667	4,935,470
Customer deposits	9	57,654,065	53,490,950
Funds borrowed	10	14,777,097	12,614,942
Debt securities in issue	11	2,247,074	1,394,904
Derivative financial instruments	4	360,795	359,168
Current income taxes payable		130,243	122,526
Deferred income tax liabilities	12	1,704	2,132
Hedging derivatives	4	289,049	453,663
Other provisions	13	431,932	457,185
Retirement benefit obligations		942,642	939,736
Insurance technical reserves		1,012,583	930,707
Other liabilities		5,873,856	5,165,086
Total liabilities		94,110,707	80,866,469
Equity			
Share capital and share premium		4,822,259	4,822,259
Other reserves	14	348,049	306,192
Retained earnings		6,850,648	5,756,268
Equity attributable to equity holders of the parent		12,020,956	10,884,719
Equity attributable to non-controlling interests		59,179	59,045
Total equity		12,080,135	10,943,764
Total liabilities and equity		106,190,842	91,810,233

The accompanying notes set out on pages 7 to 39 form an integral part of these interim condensed consolidated financial statements.

Yapı ve Kredi Bankası A.Ş.

Interim consolidated statement of income for the six-month period ended June 30, 2011

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

	Note	June 30, 2011	June 30, 2010
Interest income		3,629,177	3,226,469
Interest expense		(2,123,820)	(1,548,465)
Net interest income		1,505,357	1,678,004
Fee and commission income		1,210,806	1,040,146
Fee and commission expense		(247,198)	(143,609)
Net fee and commission income		963,608	896,537
Foreign exchange gains, net		75,102	38,509
Net trading, hedging and fair value income / (loss)	15	76,874	(43,874)
Gains from investment securities, net	15	9,368	39,822
Insurance technical income, net		62,677	43,791
Other operating income		54,662	116,745
Operating income		2,747,648	2,769,534
Impairment (losses) / reversal on loans, investment securities and credit related commitments, net		2,199	(39,576)
Provision for retirement benefit obligations		(16,401)	(12,745)
Other provisions	13	(53,112)	(69,411)
Other operating expenses	16	(1,223,991)	(1,175,727)
Operating profit		1,456,343	1,472,075
Share of profit of associates and joint ventures accounted for using the equity method		7,904	2,593
Profit before income tax		1,464,247	1,474,668
Income tax expense	12	(264,595)	(295,610)
Profit for the period		1,199,652	1,179,058
Attributable to:			
Equity holders of the parent		1,197,394	1,176,739
Non-controlling interest		2,258	2,319
		1,199,652	1,179,058
Basic and diluted earnings per share attributable to the equity holders of the parent (expressed in TL per thousand share)	20	2.75	2.71

The accompanying notes set out on pages 7 to 39 form an integral part of these interim condensed consolidated financial statements.

Yapı ve Kredi Bankası A.Ş.

Interim consolidated statement of comprehensive income for the six-month period ended June 30, 2011

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

	Note	June 30, 2011	June 30, 2010
Profit for the period		1,199,652	1,179,058
Exchange differences on translation of foreign operations		98,216	(42,228)
Net gains / (losses) on available-for-sale financial assets			
- Unrealised net gains / (losses) arising during the period, before tax		(151,644)	(2,187)
- Net amount reclassified to the statement of income, before tax		(4,544)	(1,463)
Net investment hedges			
- Net gains (losses) arising on hedges recognized in other comprehensive income, before tax		(66,730)	44,460
- Net amount reclassified to the statement of income, before tax		-	-
Cash flow hedges			
- Net losses arising on hedges recognized in other comprehensive income, before tax		(61,189)	(123,142)
- Net amount reclassified to the statement of income, before tax		87,835	18,423
Income tax relating to components of other comprehensive income	14	36,583	13,808
Other comprehensive income for the period, net of tax		(61,473)	(92,329)
Total comprehensive income for the period		1,138,179	1,086,729
Total comprehensive income attributable to:			
Equity holders of the parent (total)		1,136,237	1,084,629
Non-controlling interest (total)		1,942	2,100

The accompanying notes set out on pages 7 to 39 form an integral part of these interim condensed consolidated financial statements.

Yapı ve Kredi Bankası A.Ş.

Interim consolidated statement of changes in equity for the six-month period ended June 30, 2011

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

	Attributable to equity holders of the parent					Non-controlling interest	Total equity
	Share capital	Share premium	Other reserves (Note 14)	Retained earnings (Note 14)	Total		
Balance at January 1, 2010	4,286,580	535,679	235,993	3,594,934	8,653,186	53,217	8,706,403
Total comprehensive income for the period	-	-	(92,110)	1,176,739	1,084,629	2,100	1,086,729
Dividends paid	-	-	-	-	-	(693)	(693)
Transfer to statutory reserves	-	-	67,739	(67,739)	-	-	-
Balance at June 30, 2010	4,286,580	535,679	211,622	4,703,934	9,737,815	54,624	9,792,439
Balance at January 1, 2011	4,286,580	535,679	306,192	5,756,268	10,884,719	59,045	10,943,764
Total comprehensive income for the period	-	-	(61,157)	1,197,394	1,136,237	1,942	1,138,179
Dividends paid	-	-	-	-	-	(1,808)	(1,808)
Transfer to statutory reserves	-	-	103,014	(103,014)	-	-	-
Balance at June 30, 2011	4,286,580	535,679	348,049	6,850,648	12,020,956	59,179	12,080,135

The accompanying notes set out on pages 7 to 39 form an integral part of these interim condensed consolidated financial statements.

Yapı ve Kredi Bankası A.Ş.

Interim consolidated statement of cash flows for the six-month period ended June 30, 2011

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

	Note	June 30, 2011	June 30, 2010
Cash flows from operating activities			
Net profit		1,199,652	1,179,058
Adjustments for:			
Unrealized gain on financial assets held for trading, net		31,289	22,586
Impairment losses / (reversal) on loans, investment securities and credit related commitments	6,13	(2,199)	39,576
Measurement of derivative financial instruments at fair value	4	107,458	629,775
Share of profit of associates and joint ventures		(7,904)	(2,593)
Amortization of other intangible assets		28,747	21,221
Depreciation of property and equipment		75,349	69,705
(Reversal of) impairment charge on property and equipment		-	(1,246)
(Reversal of) impairment charge on intangible assets		-	(2,770)
Provision for current and deferred income taxes	12	264,595	295,610
Other provisions	13	53,112	69,411
Provision for retirement benefit obligations		16,401	12,745
Other liabilities		(55,346)	(48,878)
Unearned commission income		909	8,795
Dividend income		(5,891)	(927)
Interest income, net		(1,505,357)	(1,678,004)
Interest paid		(2,027,929)	(1,504,479)
Interest received		3,640,819	3,260,761
Effect of exchange rates on financing activities		1,411,121	(633,248)
Other, net		(320,480)	124,059
Cash flows from operating activities before changes in operating assets and liabilities		2,904,346	1,861,157
Changes in operating assets and liabilities:			
Net(increase) in cash balances with central banks		(3,475,663)	(661,099)
Net decrease / (increase) in loans and advances to banks		41,047	(362,028)
Net decrease / (increase) in trading securities		(210,859)	124,378
Net (increase) in loans and advances to customers		(9,647,764)	(7,950,709)
Net (increase) in other assets		(824,513)	(941,715)
Net increase in deposits from banks		5,456,977	1,659,748
Net (increase) in customer deposits		4,112,668	5,793,429
Net increase in other liabilities and provisions		644,563	663,456
Income taxes paid		(253,521)	(299,347)
Net cash (used in) operating activities		(1,252,719)	(112,730)
Cash flows from investing activities			
(Purchase of) property and equipment		(42,269)	(29,198)
Net book value of property and equipment disposed		6,541	16,039
(Purchase of) intangible assets, net		(34,193)	(36,383)
(Purchase of) held-to-maturity securities		(571,776)	(401,646)
Redemption or sale of held-to-maturity securities		1,755,111	1,131,841
(Purchase of) available-for-sale securities		(3,023,667)	(4,654,384)
Sale or redemption of available-for-sale securities		1,248,405	3,362,880
Dividends received		5,891	927
Other, net		(9,574)	6,226
Net cash (used in) investing activities		(665,531)	(603,698)
Cash flows from financing activities			
(Repayments of) borrowed funds and debt securities		(6,079,908)	(3,569,268)
Proceeds from borrowed funds and debt securities		7,523,574	4,838,363
Dividend paid to minority		(1,808)	(693)
Net cash from financing activities		1,441,858	1,268,402
Net increase / (decrease) in cash and cash equivalents		(476,392)	551,974
Effects of foreign exchange rate changes on cash and cash equivalents		299,813	(72,839)
Cash and cash equivalents at beginning of period		4,361,992	5,078,426
Cash and cash equivalents at end of period	5	4,185,413	5,557,561

The accompanying notes set out on pages 7 to 39 form an integral part of these interim condensed consolidated financial statements.

Yapı ve Kredi Bankası A.Ş.

Notes to the interim condensed consolidated financial statements at June 30, 2011

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

1. General information

Yapı ve Kredi Bankası A.Ş. ("YKB", the "Parent Bank" or the "Bank" or together with its subsidiaries it is referred to as the "Group" in these interim condensed consolidated financial statements) was established with the permission of the Council of Ministers of the Republic of Turkey No.3/6710 on September 9, 1944 as a private capital commercial bank, authorized to perform all banking, economic, financial and commercial activities which are allowed by Turkish laws. The statute of the Bank has not changed since its incorporation. The Group provides retail, corporate and private banking, credit cards, insurance, leasing, factoring and investment management services. The Group has operations in Turkey, the Netherlands, Azerbaijan and Russia.

The Group's immediate parent with 81.80% of shareholding is Koç Finansal Hizmetler A.Ş. ("KFS"), a joint venture of UniCredit Group ("UCI") and Koç Group. KFS was established as a financial holding company on March 16, 2001 to combine Koç Group financial services companies under one organization. As of October 22, 2002, Koç Group established a strategic partnership with UCI over KFS.

The Bank's shares have been traded on the Istanbul Stock Exchange ("ISE") since 1987. As of June 30, 2011, 18.20% of the shares of the Bank are publicly traded (December 31, 2010 - 18.20%). The Bank's publicly traded shares are traded on ISE and the representatives of these shares, Global Depository Receipts, are quoted on the London Stock Exchange.

At June 30, 2011, the Group has 16,917 employees (December 31, 2010 - 16,780 employees). The Bank has 886 branches operating in Turkey and 1 branch in an off-shore region (December 31, 2010 - 867 branches operating in Turkey, 1 branch in an off-shore region) and 14,547 employees (December 31, 2010 - 14,411 employees).

There is no change in the consolidation structure of the Group since December 31, 2010.

The Bank is registered in Istanbul, Turkey at the following address: Yapı Kredi Plaza D Blok, Levent 34330, İstanbul, Turkey.

The interim condensed consolidated financial statements have been reviewed, not audited.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on August 10, 2011.

2. Summary of significant accounting policies

A. Basis of preparation

These interim condensed consolidated financial statements for the period ended June 30, 2011 have been prepared in accordance with IAS 34, "Interim Financial Reporting". The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended December 31, 2010.

Notes to the interim condensed consolidated financial statements at June 30, 2011 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

2. Summary of significant accounting policies (continued)

The accounting policies adopted are consistent with those of the annual consolidated financial statements for the year ended December 31, 2010, except for the adoption of the new standards and interpretations as of January 1, 2011 noted below:

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- IFRIC 14 Prepayments of a Minimum Funding Requirement (Amended)
- IAS 32 Classifications on Rights Issues (Amended)
- IAS 24 Related Party Disclosures (Revised)

The adoption of these standards, amendments, and interpretations did not have any effect on the financial performance or position of the Group.

In May 2010 the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The amendments that are effective as at January 1, 2011 are as follows:

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Presentation of Financial Statements
- IAS 27 Consolidated and Separate Financial Statements
- IAS 34 Interim Financial Reporting
- IFRIC 13 Customer Loyalty Programs

New standards and interpretations not yet adopted

Up to the date of approval of the interim condensed consolidated financial statements, certain new standards, interpretations and amendments to existing standards have been published but are not yet effective for the current reporting period and which the Group has not early adopted, as follows. The Group will make the necessary changes if not indicated otherwise, which will be affecting the interim condensed consolidated financial statements and disclosures, after the new standards and interpretations become in effect.

- IFRS 9 Financial Instruments – Phase 1 financial instruments, classification and measurement
- IAS 12 Deferred Taxes: Recovery of Underlying Assets (Amendment)
- IFRS 7 Financial Instruments: Disclosures as part of its comprehensive review of off balance sheet activities (Amended)
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- IAS 27 Separate Financial Statements (Amended)
- IAS 28 Investments in Associates and Joint Ventures (Amended)
- IAS 19 Employee Benefits (Amended)
- IAS 1 Presentation of Financial Statements (Amended)

The Group is currently assessing the impact of adopting IFRS 9, IFRS 10, IFRS 12, IFRS 13 and IAS 1. Other than these the adoption of the above standards, amendments, and interpretations are not expected to have any material effect on the financial performance or position of the Group.

The interim condensed consolidated financial statements are presented in the national currency of the Republic of Turkey, the Turkish lira ("TL").

Notes to the interim condensed consolidated financial statements at June 30, 2011 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

2. Summary of significant accounting policies (continued)

The interim condensed consolidated financial statements have been prepared on a historical cost basis; except for available-for-sale investments, derivative financial instruments and other financial assets held for trading, which have all been measured at fair value.

The carrying values of recognized assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortized cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The Bank maintains its books of accounts and prepares its statutory financial statements in accordance with the Banking Law and the "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette No. 26333 dated November 1, 2006, which refers to Turkish Accounting Standards and Turkish Financial Reporting Standards issued by the Turkish Accounting Standards Board and additional explanations and notes related to them and other decrees, notes and explanations related to accounting and financial reporting principles published by the Banking Regulation and Supervision Agency ("BRSA") and other relevant rules promulgated by the Turkish Commercial Code, Capital Markets Board and Tax Regulations. The subsidiaries maintain their books of accounts based on statutory rules and regulations applicable in their jurisdiction. Consolidated financial statements are derived from statutory financial statements with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

3. Changes to critical accounting estimates and judgements in applying accounting policies

The preparation of interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense.

The Group calculates collective (IBNR) provision with intrinsic elements such as loss confirmation periods, probability of default and loss given defaults along with expert views. Taking into consideration the historical loss experience, the Bank has reassessed the parameters for different segments. As of June 30, 2011, as a result of such reassessment, TL 106 million is recorded as income.

Apart from the change stated above, in preparing these interim condensed consolidated financial statements, the significant judgements made by management in applying the accounting policies and the key sources of estimation uncertainty are the same as those that are applied in the annual consolidated financial statements for the year ended December 31, 2010.

4. Financial risk management

The Group's risk management functions are independent from the commercial operations along with committees such as Executive Committee and the other individual risk committees covering credit, market and operational risks and are an integral part of ensuring the Group's fulfillment of requirements stipulated by the Banking Law in a manner consistent with shareholders' risk appetites. The risk management function is responsible for: (1) maximizing returns on invested capital and maintaining sustainable growth of profitability (2) monitoring trends in risk exposures and communicating irregularities promptly to senior management (3) monitoring asset and liability profiles for rebalancing actions on a timely basis (4) identifying and classifying the risk structures of products, processes and services (5) developing and validating the credit rating/scoring models and (6) ensuring compliance with Basel II requirements and Banking Law.

Notes to the interim condensed consolidated financial statements at June 30, 2011 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

4. Financial risk management (continued)

A. Credit risk

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. Credit risk arises mainly from commercial and consumer loans and advances, credit cards and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as financial guarantees, letters of credit, endorsements and acceptances.

The Group is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets, derivatives and settlement balances with market counterparties.

The Group manages credit risk through the following implementations:

- (a) establishment of credit risk policy involving credit risk strategies, implementation of credit policy guidelines, definition of the optimum composition of the overall loan portfolio, credit risk budget and identification of risk positions within legal and group wide limitations;
- (b) monitoring and measuring the evolution of credit risk for all segments, (i.e. by industry, sector, geographical area, etc.), presentation of the strategic credit risk related reports to senior management, including evolution of loan provisioning and comparison with peer banks;
- (c) obtaining continuity of operative methodologies (e.g. borrower evaluation, loan and collateral classifications, monitoring and recovery principles) for credit processes (underwriting, monitoring and work-out) and related tools (including testing of new functionalities);
- (d) evaluation of new credit products, changes to existing ones and monitoring them to ensure the risk profile is coherent with the risk appetite and reputational risk of the Bank (e.g. on the basis of minimum requirements in terms of granting, monitoring, work-out procedures, pilot phase definition, regular performance measurement, sustainable and sound introduction and growth criteria, etc.);
- (e) enhancement and monitoring of the rating and scoring models (probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD")) as well as pricing models for all segments. This includes:
 - methodological documentation,
 - technical specification for IT implementation and support to local use,
 - definition of process guidelines regarding models usage and use tests,
 - validation,
 - definition of rating override process,
 - definition of credit data warehouse,
 - cooperation with UniCredit Group for internal validation and credit risk Value-at-Risk ("VaR") model development and calculation;
- (f) preparation of credit risk budget in line with predefined lending targets;
- (g) calculation of Cost of Risk and related provisions by segments to better assess the riskiness of loan portfolio for maintaining the asset quality;
- (h) definition of provisioning methodologies in line with BRSA and IFRS requirements.

Credit policies reflect the general credit risk principles to be followed throughout the Group's lending activities and the related strategies and goals, as well as shareholders' risk appetites. The credit policy guideline is prepared by the Group's credit risk management department and approved by the Board of Directors.

Notes to the interim condensed consolidated financial statements at June 30, 2011 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

4. Financial risk management (continued)

B. Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. As a commercial group, the focus is serving the financial needs of the customers, thereby generating exposure to interest rate and foreign exchange risk.

The Market Risk Policy of the Group identifies risk management guidelines. According to the Market Risk Policy, market risk is managed depending on the treatment of the banking book and trading book. The banking book consists of all assets and liabilities arising from commercial activities, sensitive to interest rate and foreign exchange movements. The trading book, on the other hand, includes the positions held for trading, client servicing purposes or for keeping the market maker status.

The trading activity of the Group is realized mainly in FX and securities, which is tolerated within predefined limits. Risk limits are set on an intra-day and end-of-day position basis, as well as on Value at Risk, monitored on a daily basis.

The banking book interest rate risk is measured through the economic value sensitivity method, which implies the potential change in fair value of the interest rate positions resulting from a parallel upward/downward shift of the yield curve. The overall sensitivity is supposed to be within 20% of the Core Tier 1 Capital, as also outlined in Basel II. Interest rate swaps are utilized to mitigate the banking book interest rate risk resulting from the maturity mismatch. Besides Economic Value Sensitivity, an overall Value at Risk, covering all statement of financial position items and Basis Point Value ("BPV") methods are used to measure the structural interest rate risk.

As part of the management of market risk, the Group undertakes various hedging strategies with hedge accounting applied (Note 4F). The Group also uses derivative financial instruments such as forwards, swaps, futures and options in the foreign exchange and capital markets. These transactions are considered as effective economic hedges under the Group's risk management policies. However, since they do not qualify for hedge accounting under the specific provisions of IAS 39, they are treated as derivatives held for trading.

i) Foreign exchange risk

Foreign exchange exposure is the result of the mismatch of foreign currency denominated assets and liabilities (including foreign currency indexed ones) together with exposures resulting from off-balance sheet foreign exchange derivative instruments. The Group takes an exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The limits are set by Board of Directors on the level of exposure in aggregate for both overnight and intra-day positions, which are monitored on a daily basis.

The table below summarizes the Group's assets and liabilities at carrying amounts, categorized by currency. The off-balance sheet gap represents the difference between the notional amounts of purchase and sale foreign currency derivative financial instruments.

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Notes to the interim condensed consolidated financial statements at June 30, 2011 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

4. Financial risk management (continued)

June 30, 2011

	US\$	EUR	Foreign currency		TL	Total
			Other	Total		
Assets						
Cash and balances with central banks	1,805,499	2,999,423	79,070	4,883,992	5,031,752	9,915,744
Loans and advances to banks	1,376,078	698,671	63,693	2,138,442	757,904	2,896,346
Financial assets held for trading						
- Trading securities	7,963	4,964	-	12,927	543,234	556,161
- Derivative financial instruments	69,106	17,463	1,168	87,737	289,012	376,749
Loans and advances to customers ⁽¹⁾	16,864,010	10,752,493	843,047	28,459,550	39,086,505	67,546,055
Hedging derivatives	11,317	833	-	12,150	72,381	84,531
Investment securities						
- Available-for-sale	1,115,427	296,415	66,306	1,478,148	6,278,948	7,757,096
- Held-to-maturity	7,594,465	624,294	-	8,218,759	4,032,515	12,251,274
Investment in associates and joint ventures	-	-	90,132	90,132	21,168	111,300
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	1,367	1,367	268,007	269,374
Property and equipment	-	646	17,116	17,762	1,107,362	1,125,124
Deferred income tax assets	-	-	1,548	1,548	507,439	508,987
Other assets	453,631	323,164	244,213	1,021,008	747,565	1,768,573
Total assets	29,297,496	15,718,366	1,407,660	46,423,522	59,767,320	106,190,842
Liabilities						
Deposits from banks	4,603,064	1,085,153	49,952	5,738,169	4,651,498	10,389,667
Customer deposits	17,182,870	6,960,595	985,949	25,129,414	32,524,651	57,654,065
Funds borrowed	4,035,347	8,552,957	90,853	12,679,157	2,097,940	14,777,097
Debt securities in issue	756,554	555,385	-	1,311,939	935,135	2,247,074
Derivative financial instruments	70,245	38,414	1,142	109,801	250,994	360,795
Current income taxes payable	-	-	176	176	130,067	130,243
Deferred income tax liabilities	-	1,704	-	1,704	-	1,704
Hedging derivatives	138,659	-	-	138,659	150,390	289,049
Other provisions	-	471	57	528	431,404	431,932
Retirement benefit obligations	-	3,138	-	3,138	939,504	942,642
Insurance technical reserves	252,498	67,702	30	320,230	692,353	1,012,583
Other liabilities	532,320	457,752	26,302	1,016,374	4,857,482	5,873,856
Total liabilities	27,571,557	17,723,271	1,154,461	46,449,289	47,661,418	94,110,707
Net position on statement of financial position	1,725,939	(2,004,905)	253,199	(25,767)	12,105,902	12,080,135
Off balance sheet derivative instruments net notional position ⁽²⁾	(3,533,763)	2,388,592	1,820	(1,143,351)	376,494	(766,857)
Net currency position	(1,807,824)	383,687	255,019	(1,169,118)	12,482,396	11,313,278

(1) Collective impairment allowance of TL 658,097 calculated on TL and foreign currency denominated loans is presented as TL balance in the above currency position table.

(2) Foreign exchange purchase commitments with the future value dates amounting to TL 1,296,950 booked under commitments are not included

Yapı ve Kredi Bankası A.Ş.

Notes to the interim condensed consolidated financial statements at June 30, 2011 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

4. Financial risk management (continued)

December 31, 2010

	Foreign currency					
	USD	EUR	Other	Total	TL	Total
Assets						
Cash and balances with central banks	580,667	2,799,528	95,920	3,476,115	2,558,311	6,034,426
Loans and advances to banks	1,218,798	397,656	73,069	1,689,523	1,682,584	3,372,107
Financial assets held for trading						
- Trading securities	10,229	50,969	-	61,198	315,393	376,591
- Derivative financial instruments	49,625	14,871	6,250	70,746	622,778	693,524
Loans and advances to customers ⁽¹⁾	15,060,611	8,443,658	682,800	24,187,069	33,617,085	57,804,154
Hedging derivatives	3,738	-	-	3,738	34,463	38,201
Investment securities						
- Available-for-sale	1,323,106	76,327	53,680	1,453,113	4,428,643	5,881,756
- Held-to-maturity	6,880,673	774,441	-	7,655,114	5,319,830	12,974,944
Investment in associates and joint ventures	-	-	71,906	71,906	22,265	94,171
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	1,214	1,214	262,453	263,667
Property and equipment	-	607	16,379	16,986	1,146,094	1,163,080
Deferred income tax assets	-	-	1,589	1,589	474,600	476,189
Other assets	348,546	333,668	255,369	937,583	676,312	1,613,895
Total assets	25,475,993	12,891,725	1,258,176	39,625,894	52,184,339	91,810,233
Liabilities						
Deposits from banks	2,736,367	1,409,572	251,314	4,397,253	538,217	4,935,470
Customer deposits	13,874,813	7,076,309	749,046	21,700,168	31,790,782	53,490,950
Funds borrowed	3,355,373	6,778,604	57,961	10,191,938	2,423,004	12,614,942
Debt securities in issue	844,040	550,864	-	1,394,904	-	1,394,904
Derivative financial instruments	50,258	8,482	6,206	64,946	294,222	359,168
Current income taxes payable	-	180	-	180	122,346	122,526
Deferred income tax liabilities	-	2,132	-	2,132	-	2,132
Hedging derivatives	101,638	-	-	101,638	352,025	453,663
Other provisions	-	412	-	412	456,773	457,185
Retirement benefit obligations	-	2,737	-	2,737	936,999	939,736
Insurance technical reserves	257,022	59,204	12	316,238	614,469	930,707
Other liabilities	486,280	457,858	12,904	957,042	4,208,044	5,165,086
Total liabilities	21,705,791	16,346,354	1,077,443	39,129,588	41,736,881	80,866,469
Net balance sheet position	3,770,202	(3,454,629)	180,733	496,306	10,447,458	10,943,764
Off-balance sheet derivative instruments net notional position	(4,821,403)	4,390,714	(22,028)	(452,717)	4,459,888	4,007,171
Net foreign currency position	(1,051,201)	936,085	158,705	43,589	14,907,346	14,950,935

(1) Collective impairment allowance of TL 306,393 calculated on foreign currency denominated loans is presented as TL balance in the above currency position table.

At June 30, 2011, assets and liabilities denominated in foreign currency were translated into TL using a foreign exchange rate of TL 1.58940= US\$1, and TL 2.29040 = EUR 1 (December 31, 2010 - TL 1.50730 = US\$1 and TL 1.99780 = EUR 1).

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

Notes to the interim condensed consolidated financial statements at June 30, 2011 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

4. Financial risk management (continued)

ii) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest rate risk limits are set in terms of an economic value sensitivity limit and Basis Point Value ("BPV") limit. Economic value sensitivity analysis is performed according to a scenario of 2% shift in FX yield curve and 4% shift in TL yield curve. The resulting profit/loss should not exceed 20% (Sensitivity Limit) of the Bank's Tier 1 + Tier 2 Capital. The BPV limit restricts maximum interest rate risk position by currency and time buckets. BPV is applied for the banking book and represents the sensitivity of the banking book to 1 bps change in interest rates.

The table below summarizes the Group's exposure to interest rate risk at June 30, 2011 and December 31, 2010. Included in the table are the Group's assets and liabilities in carrying amounts classified in terms of periods remaining to contractual repricing dates.

June 30, 2011	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with central banks	-	-	-	-	9,915,744	9,915,744
Loans and advances to banks	1,407,119	717,591	271,969	2,643	497,024	2,896,346
Financial assets held for trading						
- Trading securities	34,925	37,872	366,320	45,004	72,040	556,161
- Derivative financial instruments	184,468	152,344	38,814	1,123	-	376,749
Loans and advances to customers	17,238,476	16,302,247	20,621,968	11,349,596	2,033,768	67,546,055
Hedging derivatives	50,009	34,522	-	-	-	84,531
Investment securities						
- Available-for-sale	1,153,490	555,984	2,859,075	3,165,822	22,725	7,757,096
- Held-to-maturity	2,564,552	1,255,079	2,116,178	6,315,465	-	12,251,274
Investment in associates and joint ventures	-	-	-	-	111,300	111,300
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	-	-	269,374	269,374
Property and equipment	-	-	-	-	1,125,124	1,125,124
Deferred income tax assets	-	-	-	-	508,987	508,987
Other assets	551,013	5,636	-	-	1,211,924	1,768,573
Total assets	23,184,052	19,061,275	26,274,324	20,879,653	16,791,538	106,190,842
Liabilities						
Deposits from banks	7,850,881	1,935,542	304,142	112,436	186,666	10,389,667
Customer deposits	44,671,243	2,412,679	352,262	35,591	10,182,290	57,654,065
Funds borrowed	8,763,448	5,226,931	127,366	567,588	91,764	14,777,097
Debt securities in issue	1,310,723	936,351	-	-	-	2,247,074
Derivative financial instruments	166,293	172,990	18,733	2,779	-	360,795
Current income taxes payable	-	-	-	-	130,243	130,243
Deferred income tax liabilities	-	-	-	-	1,704	1,704
Hedging derivatives	215,139	73,910	-	-	-	289,049
Other provisions	-	-	-	-	431,932	431,932
Retirement benefit obligations	-	-	-	-	942,642	942,642
Insurance technical reserves	38,072	101,705	295,428	119,551	457,827	1,012,583
Other liabilities	-	11,487	2,321	-	5,860,048	5,873,856
Total liabilities	63,015,799	10,871,595	1,100,252	837,945	18,285,116	94,110,707
Net interest repricing gap	(39,831,747)	8,189,680	25,174,072	20,041,708	(1,493,578)	12,080,135
Off-balance sheet derivative instruments net notional position	13,715,199	2,572,394	(16,143,609)	(889,467)	-	(745,483)

Notes to the interim condensed consolidated financial statements at June 30, 2011 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

4. Financial risk management (continued)

December 31, 2010	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with central banks	-	-	-	-	6,034,426	6,034,426
Loans and advances to banks	2,282,807	385,433	402,066	2,710	299,091	3,372,107
Financial assets held for trading	-	-	-	-	-	-
- Trading securities	68,801	55,803	62,147	125,441	64,399	376,591
- Derivative financial instruments	591,743	76,975	23,581	1,225	-	693,524
Loans and advances to customers	18,082,302	14,479,584	16,445,317	7,766,566	1,030,385	57,804,154
Hedging derivatives	9,298	28,903	-	-	-	38,201
Investment securities	-	-	-	-	-	-
- Available-for-sale	837,277	793,347	2,234,835	1,989,900	26,397	5,881,756
- Held-to-maturity	4,194,347	822,733	2,169,162	5,788,702	-	12,974,944
Investment in associates and joint ventures	-	-	-	-	94,171	94,171
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	-	-	263,667	263,667
Property and equipment	-	-	-	-	1,163,080	1,163,080
Deferred income tax assets	-	-	-	-	476,189	476,189
Other assets	516,252	6,005	-	-	1,091,638	1,613,895
Total assets	26,582,827	16,648,783	21,337,108	15,674,544	11,566,971	91,810,233
Liabilities						
Deposits from banks	3,712,332	688,154	238,299	103,662	193,023	4,935,470
Customer deposits	42,833,680	933,971	366,958	30,530	9,325,811	53,490,950
Funds borrowed	7,741,590	4,028,093	312,164	533,095	-	12,614,942
Debt securities in issue	1,375,419	-	-	19,033	452	1,394,904
Derivative financial instruments	138,469	207,065	13,634	-	-	359,168
Current income taxes payable	-	-	-	-	122,526	122,526
Deferred income tax liabilities	-	-	-	-	2,132	2,132
Hedging derivatives	173,886	279,777	-	-	-	453,663
Other provisions	-	-	-	-	457,185	457,185
Retirement benefit obligations	-	-	-	-	939,736	939,736
Insurance technical reserves	30,695	76,694	297,790	123,616	401,912	930,707
Other liabilities	2,605,539	3,734	1,135	-	2,554,678	5,165,086
Total liabilities	58,611,610	6,217,488	1,229,980	809,936	13,997,455	80,866,469
Net interest repricing gap	(32,028,783)	10,431,295	20,107,128	14,864,608	(2,430,484)	10,943,764
Off-balance sheet derivative instruments net notional position	7,624,835	423,157	(7,757,173)	(500,565)	-	(209,746)

The table below summarizes weighted average interest rates for financial instruments by major currencies outstanding at June 30, 2011 and December 31, 2010 based on yearly contractual rates.

	June 30, 2011			December 31, 2010		
	USD (%)	EUR (%)	TL (%)	USD (%)	EUR (%)	TL (%)
Assets						
Cash and balances with central banks	-	-	-	-	-	-
Loans and advances to banks	1.76	1.51	8.77	2.09	0.36	8.05
Financial assets held for trading	4.33	2.60	7.43	2.86	7.05	8.11
Investment securities	-	-	-	-	-	-
- Available-for-sale	6.77	5.68	9.11	6.98	5.94	7.85
- Held-to-maturity	6.71	5.02	9.07	6.76	5.69	10.05
Loans and advances to customers	4.72	5.38	12.78	4.63	5.13	12.78
Liabilities						
Deposits from banks	0.75	3.47	6.19	1.36	1.14	7.29
Customer deposits	4.26	3.39	9.39	2.80	2.57	8.70
Debt securities in issue	1.11	2.16	8.86	1.33	1.77	-
Funds borrowed	2.39	3.00	11.94	2.50	2.48	9.15

Notes to the interim condensed consolidated financial statements at June 30, 2011 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

4. Financial risk management (continued)

C. Liquidity risk

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The liquidity risk is managed within the Asset and Liability Management strategy in accordance with the market risk policies. In this scope, the funding sources are being diversified and sufficient cash and cash equivalents are held to fulfill the obligations associated with financial liabilities. During the monthly meetings of the Executive Committee, the liquidity position of the Group is evaluated and it is ensured that the required actions are taken when considered necessary.

Liquidity risk is closely monitored within the Group and particular attention is paid to keeping enough cash and cash-equivalent instruments to fund increases in assets or unexpected decreases in liabilities, and to meet legal requirements, thereby optimizing the cost of carrying any excess liquidity. The Liquidity Policy provides guidelines to quantify the liquidity position and achieve a sound balance between profitability and liquidity needs. Liquidity risk limits are set both for short-term and structural (long-term) liquidity positions.

Within the Group, the following definitions apply to the components of Liquidity Risk:

1. **Liquidity Mismatch Risk** refers to the risk of non-conformity between the amounts and/or the maturities of cash inflows and cash outflows;
2. **Liquidity Contingency Risk** refers to the risk that future unexpected events could require a greater amount of liquidity than the amount foreseen as necessary for the Group. This risk could arise as a result of events such as the failure by clients to reimburse loans, the need to finance new assets, difficulties in selling liquid assets or obtaining new financings in the event of a liquidity crisis; and
3. **Market Liquidity Risk** refers to the risk that the Group may incur losses as a result of the sale of assets deemed to be liquid, or in extreme conditions is not able to liquidate such positions due to not sufficient liquidity offered by the market or keeps the position that is too large when compared to market turnover. Market liquidity risk is primarily handled via the VaR system in the Credit Risk Office ("CRO") division and is not a focus of the Liquidity Policy.

Reports on short term liquidity positions and structural liquidity positions are prepared by Risk Management. Short-term liquidity risk management considers the events that will impact upon the Group's liquidity position from one day up to three months. Structural liquidity positions consider the events effecting the Group's liquidity position in the long-term. The primary objective is to maintain an adequate ratio between total liabilities and medium or long-term assets, with a view to avoiding pressures on short-term sources (both current and future), while in the meantime optimizing the cost of funding.

According to the BRSA communiqué on liquidity, banks have to meet 80% liquidity ratio of foreign currency assets/liabilities and 100% liquidity ratio of total assets/liabilities for weekly and monthly time brackets. Risk Management performs the calculation of the mentioned ratios on a daily basis and shares the results with Treasury department and senior management.

Notes to the interim condensed consolidated financial statements at June 30, 2011 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

4. Financial risk management (continued)

D. Operational risk

Operational risk is defined as the risk of losses due to errors, infringements, interruptions, damages caused by internal processes or personnel or systems or caused by external events. Legal and compliance risk is a sub-category of operational risk: it is the risk to earnings from violations or non-compliance with laws, rules, regulations, agreements, prescribed practices or ethical standards. Operational Risk Management department ("ORM") monitors the Group's operational risk exposure in accordance to standards and policies, collects operational risk data in a web-based database, performs the risk indicators' identification, the scenario analysis assessment, Business Continuity Management and assures the quality of data gathered in accordance to Basel II standards, proposes insurance hedging on operational risks and prepares risk mitigation plans. ORM performs second level controls, manages and measures the Group's operational risks.

For regulatory purposes and consideration in statutory capital adequacy ratio, on a consolidated base the Group calculates the amount subject to operational risk with the basic indicator method in accordance with Section 4 of the "Regulation Regarding Measurement and Evaluation of Banks' Capital Adequacy Ratio" published in the Official Gazette No. 26333 dated November 1, 2006, namely "The Calculation of the Amount Subject to Operational Risk", based on the gross income of the Group for the years ended 2010, 2009 and 2008. As of June 30, 2011, the total amount subject to operational risk is calculated as TL 9,764,669 (December 31, 2010 - TL 8,999,966) and the amount of the related capital requirement is TL 781,174 (December 31, 2010 - TL 719,998).

E. Capital management

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

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

Notes to the interim condensed consolidated financial statements at June 30, 2011 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

4. Financial risk management (continued)

The Group's regulatory capital adequacy position on a consolidated basis at June 30, 2011 and December 31, 2010 was as follows:

	June 30, 2011	December 31, 2010
Tier I capital	10,539,504	9,276,491
Tier II capital	2,751,436	3,037,830
Deductions	(417,229)	(86,551)
Total regulatory capital	12,873,711	12,227,770
Risk-weighted assets (including market and operational risk)	93,575,360	79,249,650
Capital adequacy ratio (%)	13.76	15.43

F. Derivative financial instruments and hedging activities

The Group utilizes the following derivative instruments with the general purpose of minimizing market risk carried by balance sheet instruments and/or meeting customer demand.

"Currency forwards" represent commitments to purchase or sell foreign and domestic currency, including undelivered spot transactions. Forwards are customized contracts transacted in over-the-counter (OTC) market. The Group has credit exposure to the counterparties of forward contracts.

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

"Options" are contractual agreements that convey the right to the buyer and the obligations to the writer to buy or sell an asset at a specified price either at a fixed future date or at any time within a specified period. Major part of the Group's option book activity stems from the clients' needs; therefore to meet the client demands Group actively runs an option book on the residual open positions which are not fully covered. The Group is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.

"Interest rate cap and floor arrangements" provide the purchaser with the right to receive interest rate differential payments on a notional amount when the indexed rate is in excess of the specified cap rate and limits the benefit of reductions in interest rates if it occurs.

As of June 30, 2011, the Bank's credit derivatives portfolio is composed of "credit linked notes" (embedded derivatives are separated from host contract in line with IAS 39 and recorded as credit default swaps) and "credit default swaps". Credit default swaps are contracts, in which the seller commits to pay the contract value to the buyer in case of certain credit risk events in return for the premium paid by the buyer for the contract. Credit default swaps are valued daily while credit linked notes are valued monthly.

Notes to the interim condensed consolidated financial statements at June 30, 2011 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

4. Financial risk management (continued)

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

June 30, 2011

	Contract/ notional amount (aggregate of buy and sell)	Fair values	
		Assets	Liabilities
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	7,834,176	80,654	35,251
Currency swaps	15,235,312	53,977	86,240
Over the counter ("OTC") currency options	12,384,808	130,550	117,841
Total OTC foreign exchange derivatives	35,454,296	265,181	239,332
Interest rate derivatives:			
Interest rate swaps	6,811,970	37,175	72,296
Cross-currency interest rate swaps	2,721,585	48,001	37,243
OTC interest rate options	1,871,520	118	1,580
Total OTC interest rate derivatives	11,405,075	85,294	111,119
Other derivatives⁽¹⁾	1,491,630	26,274	10,344
Total derivative assets/ liabilities held for trading	48,351,001	376,749	360,795
Derivatives used for hedging			
Derivatives designated as fair value hedges:			
Cross-currency interest rate swaps	3,826,525	59,438	135,912
Derivatives designated as cash flow hedges:			
Interest rate swaps	23,331,379	25,093	153,137
Total derivative assets/ liabilities used for hedging	27,157,904	84,531	289,049
Total recognized derivative assets/ liabilities	75,508,905	461,280	649,844
Current		322,257	212,568
Non-current		139,023	437,276
Total recognized derivative assets/ liabilities	75,508,905	461,280	649,844

⁽¹⁾ Other derivatives include credit default swaps and security options. As at June 30, 2011 credit default swaps include insignificant amount of potential exposure to Eurozone sovereign countries.

Notes to the interim condensed consolidated financial statements at June 30, 2011 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

4. Financial risk management (continued)

December 31, 2010

	Contract/ notional amount (aggregate of buy and sell)	Assets	Fair values Liabilities
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	5,287,933	24,255	33,661
Currency swaps	24,093,958	314,657	195,156
OTC currency options	10,928,414	77,679	75,371
Total OTC foreign exchange derivatives	40,310,305	416,591	304,188
Interest rate derivatives:			
Interest rate swaps	3,541,598	29,705	36,885
Cross-currency interest rate swaps	3,274,251	240,306	8,640
Total OTC interest rate derivatives	6,815,849	270,011	45,525
Other derivatives⁽¹⁾	918,313	6,922	9,455
Total derivative assets/ (liabilities) held for trading	48,044,467	693,524	359,168
Derivatives used for hedging			
Derivatives designated as fair value hedges:			
Cross-currency interest rate swaps	4,317,238	34,462	313,917
Derivatives designated as cash flow hedges:			
Interest rate swaps	8,527,020	3,739	139,746
Total derivative assets/ (liabilities) used for hedging	12,844,258	38,201	453,663
Total recognized derivative assets/ (liabilities)	60,888,725	731,725	812,831
Current		664,284	188,316
Non-current		67,441	624,515
Total recognized derivative assets/ (liabilities)	60,888,725	731,725	812,831

⁽¹⁾ Other derivatives include credit default swaps and security options.

Fair value hedges

Starting from March 1, 2009, the Group has hedged the possible fair value effects of changes in market interest rates on part of its fixed interest TL mortgage and car loan portfolios and fair value effects of changes in foreign exchange rates on part of its foreign currency denominated funds borrowed using cross-currency interest rate swaps. The net carrying value of hedging instruments at June 30, 2011 is a liability amounting to TL 76,474 (December 31, 2010 – TL 279,455). At June 30, 2011, the mark to market difference of the hedging instruments since the inception date of the hedge relationship is TL 120,085 (December 31, 2010 – TL 240,233) and the fair value difference of the hedged item is TL 114,129 (December 31, 2010 – TL 224,429).

Cash flow hedges

The Group is exposed to variability in future interest cash flows on non-trading assets and liabilities which bear interest at a variable rate. The Group uses interest rate swaps as cash flow hedges of these interest rate risks.

Notes to the interim condensed consolidated financial statements at June 30, 2011 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

4. Financial risk management (continued)

In order to hedge its cash flow risk from liabilities, the Group started to apply cash flow hedge accounting from January 1, 2010 onwards. The hedging instruments are USD, EUR and TL interest rate swaps with floating receive, fixed pay legs, and the hedged item is the cash outflows due to financing of interests of repricing USD, EUR and TL deposits and repos.

Net gain on cash flow hedges reclassified to the statement of income

The net gain / (loss) on cash flow hedges reclassified to the statement of income during the six month period ended June 30, 2011 was as follows:

	June 30, 2011	June 30, 2010
Net interest income / (expense)	(87,835)	(18,423)
Taxation	17,567	3,685

In the first six months of 2011, a loss of TL 373 (June 30, 2010 - TL 1,451) was recognized in the statement of income due to hedge ineffectiveness from cash flow hedges.

As of June 30, 2011 losses arising from cash flow hedges recognized under equity, net of reclassification to statement of income and net of tax, is TL 80,512 (June 30, 2010 - TL 83,775).

There were no transactions for which cash flow hedge accounting had to be ceased in 2011 or 2010 as a result of the highly probable cash flows no longer being expected to occur.

Net investment hedges

The Group hedges part of the currency translation risk of net investments in foreign operations through foreign currency borrowings.

The Group's Euro denominated borrowing is designated as a hedge of the net investment in the Group's certain EUR denominated subsidiaries. The total amount of the borrowing designated as a hedge of the net investment at June 30, 2011 is EUR 228 million (December 31, 2010 – EUR 203 million). The foreign exchange loss of TL 53,384 (June 30, 2010 – TL 35,568 gain), net of tax, on translation of the borrowing to TL at the statement of financial position date is recognized in "other reserves" in equity.

No ineffectiveness from hedges of net investments in foreign operations was recognized in profit or loss during the period (June 30, 2010 – none).

5. Cash and cash equivalents for the purpose of presentation in the consolidated statement of cash flow

	June 30, 2011	June 30, 2010
Cash and cash equivalents	888,134	587,748
Balances with central banks	9,027,610	4,297,673
Reserve deposits with central banks (-)	(7,862,585)	(3,520,570)
Loans and advances to banks (with original maturity less than 90 days) (+)	2,036,758	4,050,795
Other cash equivalents (+)	95,496	141,915
Total	4,185,413	5,557,561

Notes to the interim condensed consolidated financial statements at June 30, 2011 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

6. Loans and advances to customers

June 30, 2011	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Performing loans	42,142,808	11,264,284	9,022,458	2,093,386	1,650,837	66,173,773
Watch listed loans	852,978	372,568	195,369	158,040	-	1,578,955
Loans under legal follow-up	979,365	355,882	508,409	265,701	18,700	2,128,057
Gross	43,975,151	11,992,734	9,726,236	2,517,127	1,669,537	69,880,785
Specific allowance for impairment	(882,591)	(216,745)	(389,875)	(169,795)	(17,627)	(1,676,633)
Collective allowance for impairment	(434,604)	(86,525)	(119,791)	(10,507)	(6,670)	(658,097)
Total allowance for impairment	(1,317,195)	(303,270)	(509,666)	(180,302)	(24,297)	(2,334,730)
Net	42,657,956	11,689,464	9,216,570	2,336,825	1,645,240	67,546,055
Current						33,661,539
Non-current						33,884,516
December 31, 2010	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Performing loans	35,151,219	9,264,955	8,244,469	1,674,713	1,824,229	56,159,585
Watch listed loans	927,771	444,659	305,017	193,801	-	1,871,248
Loans under legal follow - up	973,892	378,569	471,482	313,781	18,044	2,155,768
Gross	37,052,882	10,088,183	9,020,968	2,182,295	1,842,273	60,186,601
Specific allowance for impairment	(848,030)	(228,111)	(419,342)	(195,100)	(17,381)	(1,707,964)
Collective allowance for impairment	(471,452)	(78,899)	(109,330)	(8,296)	(6,506)	(674,483)
Total allowance for impairment	(1,319,482)	(307,010)	(528,672)	(203,396)	(23,887)	(2,382,447)
Net	35,733,400	9,781,173	8,492,296	1,978,899	1,818,386	57,804,154
Current						29,997,872
Non-current						27,806,282

Fair value of collateral:

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

June 30, 2011	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Watch listed loans	304,232	145,446	-	76,809	-	526,487
Loans under legal follow-up	178,354	78,347	-	87,981	-	344,682
Total	482,586	223,793	-	164,790	-	871,169
December 31, 2010	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Watch listed loans	372,980	174,571	-	107,818	-	655,369
Loans under legal follow - up	190,853	80,735	-	101,858	-	373,446
Total	563,833	255,306	-	209,676	-	1,028,815

Notes to the interim condensed consolidated financial statements at June 30, 2011 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

6. Loans and advances to customers (continued)

Included in the performing loans and advances to consumers, are loans amounting to TL 1,822,003 at amortized cost) which have been designated as hedged items in fair value hedges as of June 30, 2011 (December 31, 2010 – TL 2,072,176). Those loans have been hedged with interest rate swaps as part of a documented interest rate risk management strategy. The carrying values of such loans that are hedged items in fair value hedges, and otherwise carried at amortized cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

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

	2011					2010	
	Corporate	Consumer	Credit cards	Leasing	Factoring	Total	Total
At January 1	1,319,482	307,010	528,672	203,396	23,887	2,382,447	3,104,169
Provision for loan impairment	122,885	191,114	108,763	35,657	680	459,099	680,918
Amounts recovered during the year	(130,313)	(195,009)	(127,775)	(17,801)	(274)	(471,172)	(666,436)
Loans written-off during the period as uncollectible (-)	(218)	-	-	(40,950)	-	(41,168)	(710,834)
Exchange differences	5,359	155	6	-	4	5,524	1,255
At June 30	1,317,195	303,270	509,666	180,302	24,297	2,334,730	2,409,072

During the six-month period ended June 30, 2011 the Group sold some of its non-performing leasing receivables with principal amounting to TL 37,753, for a total consideration of TL 800 and realized pre-tax income of TL 800. The impairment provisions that were released in relation to these sales amounted to TL 37,753 and are included in "loans written-off" in the table above.

During the six-month period ended June 30, 2010, the Group sold non-performing loans portfolios with principal amounting to TL 770,182 (net-of previously written-off amounts) for a total consideration of TL 77,617 and realized pre-tax income before legal expenses amounting to approximately TL 16,837. The impairment provisions that were released in relation to these sales amounted to TL 709,402 and are included in "loans written-off" in the table above.

The calculation of net investment in direct finance leases is as follows:

	June 30, 2011	December 31, 2010
Gross investment in direct finance leases	2,866,173	2,457,776
Unearned finance income	(404,857)	(341,839)
	2,461,316	2,115,937
Interest accrual on receivables	28,888	29,760
Receivables from outstanding lease payments	26,923	36,598
Provision for impaired lease receivables	(180,302)	(203,396)
Net investment in direct finance leases	2,336,825	1,978,899

Yapı ve Kredi Bankası A.Ş.

Notes to the interim condensed consolidated financial statements at June 30, 2011 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

6. Loans and advances to customers (continued)

Lease payments receivable consists of rentals over the terms of leases. The rentals according to maturity are as follows:

	June 30, 2011	December 31, 2010
Less than 1 year	518,459	821,382
More than 1 year but not later than 5 years	1,879,737	1,145,620
Later than 5 years	100,047	49,551
Less: unearned finance income	(404,857)	(341,840)
Investment in performing lease receivables	2,093,386	1,674,713

7. Investment securities

(i) Securities available-for-sale

	June 30, 2011	December 31, 2010
Debt securities - at fair value:		
Government bonds and treasury bills	2,427,801	3,402,886
Eurobonds	994,087	869,249
Government and corporate bonds and treasury bills sold under repurchase agreements	2,637,959	212,492
Other	1,674,524	1,374,753
Equity securities - at fair value		
Listed	-	240
Unlisted	22,725	22,136
Total securities available-for-sale	7,757,096	5,881,756
Current	361,115	259,165
Non-current	7,395,981	5,622,591

Government bonds, treasury bills and Eurobonds are discount and coupon securities issued by the Government of the Republic of Turkey. Other securities mainly represent A and B type open-ended mutual funds incorporated in Turkey managed by the Group and credit linked notes, cross maturity swaps and other bonds issued by domestic and foreign financial institutions.

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Notes to the interim condensed consolidated financial statements at June 30, 2011 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

7. Investment securities (continued)

(ii) Securities held-to-maturity

	June 30, 2011	December 31, 2010
Debt securities - at amortized cost - listed:		
Government bonds and treasury bills	1,493,510	5,248,357
Eurobonds	2,873,647	3,992,525
Government bonds and treasury bills sold under repurchase agreements	2,539,005	224,251
Eurobonds sold under repurchase agreements	5,190,061	3,409,920
Foreign government bonds ⁽¹⁾	155,051	99,891
Total securities held-to-maturity	12,251,274	12,974,944
Current	787,071	2,218,609
Non-current	11,464,203	10,756,335

(1) Necessary impairment provision has been provided for foreign government securities of Eurozone sovereign countries held in Group companies where the Group has insignificant amount of exposure.

8. Deposits from banks

	June 30, 2011			December 31, 2010		
	Demand	Term	Total	Demand	Term	Total
Foreign currency:						
Domestic banks	6,457	530,205	536,662	3,567	467,915	471,482
Foreign banks	19,704	889,327	909,031	30,770	743,408	774,178
Funds deposited under repurchase agreements	-	4,292,476	4,292,476	-	3,151,593	3,151,593
	26,161	5,712,008	5,738,169	34,337	4,362,916	4,397,253
TL:						
Domestic banks	120,016	108,961	228,977	65,954	92,353	158,307
Foreign banks	40,489	16,314	56,803	92,732	287,178	379,910
Funds deposited under repurchase agreements	-	4,365,718	4,365,718	-	-	-
	160,505	4,490,993	4,651,498	158,686	379,531	538,217
	186,666	10,203,001	10,389,667	193,023	4,742,447	4,935,470
Current	186,666	9,236,376	9,423,042	193,023	4,169,376	4,362,399
Non-current	-	966,625	966,625	-	573,071	573,071

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9. Customer deposits

	June 30, 2011			December 31, 2010		
	Demand	Term	Total	Demand	Term	Total
Foreign currency deposits:						
Saving deposits	2,082,310	8,562,018	10,644,328	1,967,201	7,541,958	9,509,159
Commercial deposits	2,646,645	11,838,441	14,485,086	2,785,429	9,405,580	12,191,009
	4,728,955	20,400,459	25,129,414	4,752,630	16,947,538	21,700,168
TL deposits:						
Saving deposits	2,054,936	18,530,365	20,585,301	1,812,758	15,843,209	17,655,967
Commercial deposits	2,570,934	7,838,945	10,409,879	2,439,527	11,230,188	13,669,715
Funds deposited under repurchase agreements	-	699,925	699,925	-	67,825	67,825
Public sector deposits	827,465	2,081	829,546	320,896	76,379	397,275
	5,453,335	27,071,316	32,524,651	4,573,181	27,217,601	31,790,782
	10,182,290	47,471,775	57,654,065	9,325,811	44,165,139	53,490,950
Current	10,182,290	47,000,670	57,182,960	9,325,811	43,767,691	53,093,502
Non-current	-	471,105	471,105	-	397,448	397,448

10. Funds borrowed

	June 30, 2011	December 31, 2010
Foreign institutions and banks		
Syndication loans	4,392,823	3,385,043
Subordinated debt	2,425,266	2,110,274
Other	6,217,610	5,248,988
Total foreign	13,035,699	10,744,305
Domestic banks	1,101,868	1,439,039
Interbank money market	639,530	431,598
Total domestic	1,741,398	1,870,637
	14,777,097	12,614,942
Current	9,381,300	7,761,132
Non-current	5,395,797	4,853,810

During the first six months of 2011, the Bank renewed a syndication loan from international banks from 19 countries, 47 banks, consisting of 2 credit tranches with 1 year maturity; one tranche amounting to USD 301 million (equivalent of TL 478 million) with total cost of Libor+1,1% and the other tranche amounting to EUR 795 million (equivalent of TL 1,827 million) with total cost of Euribor+1,1%. The agreement was signed on April 19, 2011.

During the first six month period of 2011, the Bank repaid TL 5,880,340 of funds borrowed.

Notes to the interim condensed consolidated financial statements at June 30, 2011 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

11. Debt securities in issue

The details of YKB's debt securities in issue including diversified payment rights securitization transaction and domestic bonds are as follows:

	Average interest rate			
	(%) ⁽¹⁾			
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
USD175,000,000 Series 2006-A Floating Rate Notes Due 2014	194,066	211,335	0.51	0.53
USD200,000,000 Series 2006-B Floating Rate Notes Due 2014	55,596	60,261	0.48	0.50
USD114,000,000 Series 2006-C Floating Rate Notes Due 2013	103,444	117,728	0.61	0.63
€279,846,000 Series 2006-D Floating Rate Notes Due 2014	84,519	84,223	2.03	1.26
€67,215,000 Series 2007-A Floating Rate Notes Due 2015	48,243	47,673	1.61	1.22
USD199,000,000 of Series 2007-B Floating Rate Notes Due 2015	94,301	101,361	0.45	0.47
USD112,080,000 of Series 2010-A Floating Rate Notes Due 2015	156,023	169,111	0.89	0.92
USD7,500,000 of Series 2010-B Floating Rate Notes Due 2015	9,943	11,316	0.90	0.92
€179,440,811 of Series 2010-C Floating Rate Notes Due 2015	361,334	359,154	2.07	1.68
€29,659,900 of Series 2010-D Floating Rate Notes Due 2015	60,073	59,362	2.03	1.64
USD102,000,000 of Series 2010-E Floating Rate Notes Due 2015	143,181	153,895	0.85	0.88
Other	1,216	19,485	-	-
TL 1,000,000 domestic bonds	935,135	-	8.86	-
	2,247,074	1,394,904		
Current	1,318,781	348,969		
Non-current	928,293	1,045,935		
	2,247,074	1,394,904		

⁽¹⁾ The premium rates paid to monoline companies are excluded from the interest rates.

The repayment of these debt securities commenced in 2010 and during the six-month period ended June 30, 2011, the Group repaid TL 181,298 of debt securities in issue (TL 345,191 in full year 2010).

On June 8, 9 and 10, 2011, YKB issued discounted bonds amounting to TL 1.000.000 (nominal) at an interest rate of 8.67% with 175 days maturity. These bonds can be re-purchased according to related legislation.

12. Taxation

Consolidated statement of income

	June 30, 2011	June 30, 2010
Current tax expense	(261,238)	(388,314)
Deferred tax income / (expense)	(3,357)	92,704
	(264,595)	(295,610)

As at June 30, 2011, the Bank has submitted its application to Boğaziçi Corporate Tax Authority and Taxpayers Office to claim for the benefit of the tax amnesty (the Law numbered 6111) regarding 6 tax penalties resulting from tax inspectors' review of 2005, 2006, 2007, 2009 and 2010 fiscal years. As a result of this application, the restructured tax payable amounting to TL 1,332 is paid on due date at once.

In addition, Group companies which have submitted application regarding this law have paid amounts of no significance.

Notes to the interim condensed consolidated financial statements at June 30, 2011 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

12. Taxation (continued)

Deferred income taxes

For all domestic subsidiaries and the Bank, deferred income taxes are calculated on temporary differences that are expected to be realized or settled based on the taxable income in fiscal year 2011 under the liability method using a principal tax rate of 20% at June 30, 2011 (June 30, 2010 - 20%).

For foreign subsidiaries deferred income taxes are calculated on all temporary differences under the liability method using the principal tax rates at June 30, 2011 and 2010 which are as follows:

Country of incorporation	Tax rate (%)	
	June 30, 2011	June 30, 2010
Russia	20.00	20.00
The Netherlands	25.50	25.50
Azerbaijan	20.00	20.00

The deferred income tax assets and liabilities represent the tax effect of temporary differences arising due to the different treatment of certain items of income and expenses included in the financial statements compared to the local tax returns in accordance with the applicable tax law plus any available tax loss carried forward from previous years.

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

	Cumulative Temporary Differences		Deferred Tax Asset/Liability	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
Impairment on assets	710,685	709,041	75,550	75,221
Allowance for loan impairment	929,422	966,336	185,166	192,730
Pension benefits transferable to the Social Security Institution ("SSI")	838,036	838,036	167,607	167,607
Reserve for employment termination benefits	104,606	101,700	20,921	20,486
Revaluation of derivative instruments at fair value	649,836	812,831	124,240	158,262
Valuation differences on investment securities	57,292	29,367	11,466	5,883
Other	700,804	863,813	140,128	174,434
Deferred income tax assets	3,990,681	4,321,124	725,078	794,623
Difference between carrying value and tax base of property and equipment	927,452	944,583	93,752	97,174
Valuation differences on investment securities	1,553	130,270	311	25,704
Revaluation of derivative instruments at fair value	582,113	956,156	109,641	186,416
Other	69,454	53,253	14,091	11,272
Deferred income tax liabilities	1,580,572	2,084,262	217,795	320,566
Deferred income tax assets, net	2,410,109	2,236,862	507,283	474,057

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Notes to the interim condensed consolidated financial statements at June 30, 2011 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

13. Other provisions

	June 30, 2011	December 31, 2010
Provision for losses on credit related commitments	181,195	189,660
Tax and other legal provisions	141,566	124,712
Provisions on credit cards and promotion campaigns	39,701	39,697
Provision on export commitment estimated liability	36,103	39,486
Other	33,367	63,630
	431,932	457,185
Current	25,139	52,722
Non-current	406,793	404,463

Credit related commitments provision

The Group management has estimated losses that may arise from credit related commitments and has recognized provision of TL 181,195 (December 31, 2010 – TL 189,660).

Tax and other legal provisions

At June 30, 2011, the Group is involved in a number of legal disputes. The Group's lawyers advise that, owing to developments in some of these cases, it is probable that the Group will be found liable. Therefore, the management has recognized a provision of TL 43,094 (December 31, 2010 - TL 35,886) as the best estimate of the amount to settle these potential obligations.

The Group recorded a total provision of TL 98,472 (December 31, 2010 - TL 88,826) against potential tax risks in the form of possible tax duties and penalties in the interim condensed consolidated financial statements for the six-month period ended June 30, 2011.

Export commitment provision

The Group management has estimated losses that may arise from export loans to customers under legal follow-up that do not have the ability to fulfill their export commitments and has recognized provision of TL 36,103 (December 31, 2010 - TL 39,486).

Movement in other provisions is as follows:

	Provision for credit related commitments	Tax and other legal provisions	Provisions on credit cards and promotion campaigns	Export commitment provisions	Other	June 30, 2011 Total	June 30, 2010 Total
At January 1	189,660	124,712	39,697	39,486	63,630	457,185	397,871
Provision charged / (released)	(8,539)	19,251	55,343	(3,383)	(18,099)	44,573	94,505
Provision used	-	(2,397)	(55,339)	-	(12,206)	(69,942)	(66,759)
Translation difference	74	-	-	-	42	116	(698)
Balance at June 30	181,195	141,566	39,701	36,103	33,367	431,932	424,919

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Notes to the interim condensed consolidated financial statements at June 30, 2011 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

14. Retained earnings and other reserves

	June 30, 2011	December 31, 2010
Statutory reserves	266,998	163,984
Translation reserves	203,347	105,131
Revaluation reserve for available-for-sale investments	63,750	191,056
Hedging reserves	(186,046)	(153,979)
Total other reserves	348,049	306,192
Retained earnings	6,850,648	5,756,268

Movements in other reserves were as follows:

	Statutory reserves	Revaluation reserves	Translation reserves	Hedging reserves	Total
At January 1, 2011	163,984	191,056	105,131	(153,979)	306,192
Net change in available-for-sale investments, before tax	-	(127,306)	-	-	(127,306)
Losses on hedges of a net investment in a foreign operation	-	-	-	(53,384)	(53,384)
Gains on cash flow hedges	-	-	-	21,317	21,317
Currency translation differences	-	-	98,216	-	98,216
Transfer to statutory reserves	103,014	-	-	-	103,014
At June 30, 2011	266,998	63,750	203,347	(186,046)	348,049
	Statutory reserves	Revaluation reserves	Translation reserves	Hedging reserves	Total
At January 1, 2010	96,245	94,469	113,017	(67,738)	235,993
Net change in available-for-sale investments, before tax	-	(1,675)	-	-	(1,675)
Gains on hedges of a net investment in a foreign operation	-	-	-	35,568	35,568
Losses on cash flow hedges	-	-	-	(83,775)	(83,775)
Currency translation differences	-	-	(42,228)	-	(42,228)
Transfer to statutory reserves	67,739	-	-	-	67,739
At June 30, 2010	163,984	92,794	70,789	(115,945)	211,622

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

Notes to the interim condensed consolidated financial statements at June 30, 2011 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

14. Retained earnings and other reserves (continued)

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

- a) First legal reserve, appropriated at the rate of 5% of net income, until the total reserve is equal to 20% of issued and fully paid-in share capital.
- b) Second legal reserve, appropriated at the rate of at least 10% of distribution in excess of 5% of issued and fully paid-in share capital, without limit. It may be used to absorb losses.

The Group's share in the total legal reserves and extraordinary reserves of the consolidated subsidiaries amounting to TL 502,769 (June 30, 2010 - TL 380,805) and TL 5,425,773 (June 30, 2010 - TL 3,367,865), respectively, have been presented under retained earnings.

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

15. Net trading, hedging and fair value income and net gains / losses from investment securities

	June 30, 2011	June 30, 2010
Foreign exchange:		
- Translation gains less losses of trading securities	3,121	6,338
- Transaction gains less losses	(139,080)	102,191
Interest rate instruments	208,004	(152,665)
Equities	(2,562)	262
Credit derivatives	7,391	-
	76,874	(43,874)

Foreign exchange net trading income includes gains and losses from spot and forward contracts, options, futures and translated foreign currency assets and liabilities. Interest rate instruments includes the results of making markets in instruments in government securities, money market instruments, interest rate and cross currency interest rate swaps, options, hedge items and other derivatives.

Net gains from investment securities amounting to TL 9,368 (2010 - TL 39,822 gains) comprise of net results on disposals of available-for-sale and held-to-maturity financial assets.

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(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

16. Other operating expenses

	June 30, 2011	June 30, 2010
Staff costs	(665,809)	(594,364)
Depreciation on property and equipment	(75,349)	(69,705)
Amortization of intangible assets	(28,747)	(21,221)
Depreciation and amortization	(104,096)	(90,926)
(Impairment charge) / reversal of impairment on property and equipment	-	1,246
(Impairment charge) / reversal of impairment on other intangible assets	-	2,770
Impairment (charge) / reversal	-	4,016
Sundry taxes and duties	(40,619)	(72,086)
Rent expenses	(70,559)	(60,959)
Communication expenses	(47,360)	(45,498)
Marketing and advertisement costs	(32,893)	(42,916)
Payments to Saving Deposit Insurance Fund	(33,915)	(31,604)
Utilities	(17,856)	(18,119)
Repair and maintenance expenses	(12,852)	(10,811)
Charities	(333)	(2,584)
Other expenses	(197,699)	(209,876)
General administrative expenses	(454,086)	(494,453)
Total	(1,223,991)	(1,175,727)

17. Assets pledged and restricted

The Group has the following assets pledged as collateral:

	June 30, 2011		December 31, 2010	
	Assets	Related liability	Assets	Related liability
Trading securities	-	-	43,734	32,914
Investment securities	10,528,738	9,507,784	3,846,663	3,186,504
Other assets pledged ⁽¹⁾	522,401	-	497,616	-
Total	11,051,139	9,507,784	4,388,013	3,219,418

⁽¹⁾ Other assets pledged are the collaterals given to the counter parties of the derivative transactions and the additional collaterals given in relation to the funds obtained under repurchase agreements.

Notes to the interim condensed consolidated financial statements at June 30, 2011 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

17. Assets pledged and restricted (continued)

Available-for-sale, held-to-maturity and trading securities whose total carrying amount is TL 10,528,738 as of June 30, 2011 (December 31, 2010 – TL 3,890,397) are pledged to banks and other financial institutions against borrowed funds and funds obtained under repurchase agreements and total return swap transactions. Total amount of funds obtained under repurchase agreements and total return swaps is TL 9,507,784 as of June 30, 2011 (December 31, 2010 – TL 3,219,418). In accordance with the terms of the agreements with these financial institutions (“transferees”), the Bank provides these collaterals (debt instruments as given above) to the transferees and the transferees have the right to sell or repledge the collaterals until the expiry date of the agreements.

Securities are also pledged to regulatory authorities for legal requirements and other financial institutions as a guarantee for stock exchange and money market operations. These are mainly the Central Bank of Republic of Turkey (CBRT), Istanbul Stock Exchange (ISE) Settlement and Custody Bank and other financial institutions and amount to TL 3,600,937 (December 31, 2010 – 2,048,906).

As of June 30, 2011, the Group’s reserve deposits that are not available for unrestricted use, including those at foreign central banks, amount to TL 7,862,585 (December 31, 2010 – TL 4,389,977). There is also TL 95,057 blocked amount in foreign banks account.

18. Contingent liabilities

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

Legal proceedings

Due to the nature of its business, the Group is involved in a number of claims and legal proceedings, arising in the ordinary course of business. The Group recognizes provisions for such matters when, in the opinion of management and its professional advisors, it is probable that a payment will be made by the Group, and the amount can be reasonably estimated (Note 13).

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

Credit related commitments

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

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18. Contingent liabilities (continued)

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

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

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

June 30 ,2011	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letters of credits	2,534,935	2,189,234	498,901	-	5,223,070
Letters of guarantee	10,675,968	4,340,109	1,588,801	197,253	16,802,131
Acceptance credits	157,481	-	-	-	157,481
Other commitments	851,169	766,546	187,157	11,337	1,816,209
Total	14,219,553	7,295,889	2,274,859	208,590	23,998,891

December 31, 2010	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	1,934,347	1,708,092	357,434	-	3,999,873
Letter of guarantees	7,816,864	2,711,202	3,620,745	798,652	14,947,463
Acceptance credits	165,797	-	-	-	165,797
Other commitments	142,724	144,453	272,644	19,599	579,420
Total	10,059,732	4,563,747	4,250,823	818,251	19,692,553

19. Segment analysis

The Group carries out its banking operations through three main business units: (1) Retail Banking (including credit cards and SME banking), (2) Corporate and Commercial Banking (3) Private Banking and Wealth Management.

The Group's Retail Banking activities include credit cards, SME (small and medium size enterprises) banking and individual banking. Retail banking products and services offered to customers include credit cards, consumer loans (including general purpose loans, auto loans and mortgages), commercial installment loans, SME loans, time and demand deposits, investment accounts, life and non-life insurance products and payroll services. Credit card operations cover the management of products and services for member merchants as well as the sales and marketing operations for a variety of customer types. The Clubs and Programs under the umbrella of World brand includes Gold Club, Platinum Club, Crystal Club, Adios (Travel Program), Adios Premium (VIP Travel Program), Play Card (Young Employees Program and Student Program), Fenerbahçe Worldcard, KoçAilem Worldcard, Business Club (Corporate Program, Trio Program, Company Program and SME Program), Verimli Card, Taksitçi Card, Share Program and Communication Program. The Bank also offers debit cards and a prepaid card named World Hediye Card.

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19. Segment analysis (continued)

Corporate and Commercial Banking is organized into two sub-segments: Commercial Banking, which serves mid-sized companies; and Corporate Banking, which serves large local and multinational companies. Corporate and Commercial Banking provides products and services including working capital financing, foreign trade finance, project finance, leasing and factoring, domestic and international non-cash credit line facilities such as letters of credit and guarantees, cash management and e-banking services.

Through its Private Banking and Wealth Management activities, the Group serves high net worth customers and delivers investment products to this customer segment. Among the products and services offered to Private Banking customers are time deposits, mutual funds, derivative products such as forwards, futures and options, personal loans, foreign exchange, gold and equity trading, pension plans, insurance products, safe deposit boxes and e-banking services. Private Banking services are enhanced by investment advisory and portfolio management services provided by the Bank and its portfolio management and brokerage subsidiaries.

The Group's widespread branch network and alternative distribution channels including ATMs, telephone banking, internet banking and mobile banking are utilized to serve customers in all segments.

Foreign operations include the Group's banking transactions in the Netherlands, Azerbaijan and Russia.

Other operations mainly consist of treasury transactions, operations of supporting business units, insurance operations and other unallocated transactions.

The Chief Operating Decision Maker manages segment performance based on IFRS consolidated figures.

June 30, 2011	Retail banking	Corporate and commercial banking	Private banking and wealth management	Foreign operations	Other^(*)	Eliminations	Group
Segment revenue	1,230,626	735,866	140,995	66,154	668,609	(94,602)	2,747,648
Segment expenses	(686,484)	(222,536)	(56,843)	(41,719)	(322,534)	38,811	(1,291,305)
Segment result	544,142	513,330	84,152	24,435	346,075	(55,791)	1,456,343
Operating profit	544,142	513,330	84,152	24,435	346,075	(55,791)	1,456,343
Share of results of associates and joint ventures					7,904		7,904
Profit before tax	544,142	513,330	84,152	24,435	353,979	(55,791)	1,464,247
Income tax expense					(264,595)		(264,595)
Profit for the period	544,142	513,330	84,152	24,435	89,384	(55,791)	1,199,652
Segment assets	30,831,523	35,758,473	1,414,120	4,364,903	34,905,101	(1,194,578)	106,079,542
Associates and joint ventures					111,300		111,300
Total assets	30,831,523	35,758,473	1,414,120	4,364,903	35,016,401	(1,194,578)	106,190,842
Segment liabilities	26,936,591	20,309,867	13,570,751	3,618,178	43,191,225	(1,435,770)	106,190,842
Total liabilities	26,936,591	20,309,867	13,570,751	3,618,178	43,191,225	(1,435,770)	106,190,842

(*) Other segment liabilities also include the equity.

Yapı ve Kredi Bankası A.Ş.

Notes to the interim condensed consolidated financial statements at June 30, 2011 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

19. Segment analysis (continued)

June 30, 2010	Retail banking	Corporate and commercial banking	Private banking and wealth management	Foreign operations	Other ^(*)	Eliminations	Group
Segment revenue	1,340,654	650,618	168,967	68,438	766,135	(225,278)	2,769,534
Segment expenses	(605,951)	(251,420)	(53,683)	(19,119)	(396,467)	29,181	(1,297,459)
Segment result	734,703	399,198	115,284	49,319	369,668	(196,097)	1,472,075
Operating profit	734,703	399,198	115,284	49,319	369,668	(196,097)	1,472,075
Share of results of associates and joint ventures					2,593		2,593
Profit before tax	734,703	399,198	115,284	49,319	438,853	(262,689)	1,474,668
Income tax expense					(295,610)		(295,610)
Profit for the period	734,703	399,198	115,284	49,319	143,243	(262,689)	1,179,058
Segment assets	26,522,965	33,113,940	1,310,016	4,231,558	27,809,818	(1,272,235)	91,716,062
Associates and joint ventures					94,171		94,171
Total assets	26,522,965	33,113,940	1,310,016	4,231,558	27,903,989	(1,272,235)	91,810,233
Segment liabilities	23,676,641	21,826,378	11,257,340	3,545,619	32,776,864	(1,272,609)	91,810,233
Total liabilities	23,676,641	21,826,378	11,257,340	3,545,619	32,776,864	(1,272,609)	91,810,233

(*) Other segment liabilities also include the equity.

20. Earnings per share

Earnings per share disclosed in the consolidated statements of income is determined by dividing the net income attributable to the equity holders of the parent by the weighted average number of ordinary shares outstanding during the period concerned.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the period is adjusted in respect of bonus shares issued without a corresponding change in resources by giving them a retroactive effect for the period in which they were issued and for each earlier period.

The Bank has not issued any share attributable to transfers to share capital from retained earnings during the six-month period ended June 30, 2011 (2010 - none).

The earnings attributable to basic shares for each period are as follows:

	June 30, 2011	June 30, 2010
Profit attributable to equity holders of the parent	1,197,394	1,176,739
Weighted average number of ordinary shares in issue (thousand) (1 Kr each)	434,705,128	434,705,128
Basic and diluted earnings per share (expressed in TL, full amount per thousand share)	2.75	2.71

Yapı ve Kredi Bankası A.Ş.

Notes to the interim condensed consolidated financial statements at June 30, 2011 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

20. Earnings per share (continued)

There are no dilutive potential ordinary shares and accordingly there are no diluted earnings per share for any class of shares.

21. Related party balances and transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, The Group is jointly controlled by Koç Group and UCI, owning 50% of the ordinary shares each of KFS.

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

(i) Balances with related parties:

	June 30, 2011		December 31, 2010	
	Total	Share in total %	Total	Share in total %
Loans and advances to customers, net	1,211,590	2	1,663,655	3
Trading and investment securities	3,211	-	179	-
Derivative financial instruments	5,660	2	11,217	2
Loans and advances to banks	46,520	2	5,657	-
Other assets	225	-	761	-
Total assets	1,267,206		1,681,469	
Customer deposits	6,603,964	11	7,471,208	14
Funds borrowed	2,638,294	19	2,187,131	18
Derivative financial instruments	6,589	2	6,395	2
Other liabilities	1,358	-	3,136	-
Deposits from banks	469,250	5	3	-
Total liabilities	9,719,455		9,667,873	
Commitments under derivative instruments	917,570	2	868,457	1
Credit related commitments	917,068	4	755,890	4
Total commitments and contingent liabilities	1,834,638		1,624,347	

(ii) Transactions with related parties:

Yapı ve Kredi Bankası A.Ş.

Notes to the interim condensed consolidated financial statements at June 30, 2011 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

21. Related party balances and transactions (continued)

	June 30, 2011		June 30, 2010	
	Total	Share in total %	Total	Share in total %
Interest income on loans and advances to customers	35,984	1	58,385	3
Fee and commission income	8,529	1	9,828	1
Interest income on financial leases	-	-	1,096	1
Interest income on loans and advances to banks	100	-	40	-
Other operating income	16,375	29	2,108	2
Total interest and fee income	60,988		71,457	
Interest expense on deposits	(228,768)	11	(107,946)	10
Interest expense on funds borrowed	(13,614)	-	(278)	-
Other operating expense	(6,305)	1	(3,504)	-
Fee and commission expense	(2)	-	(2)	-
Total interest and fee expense	(248,689)		(111,730)	

(iii) Balances with directors and other key management personnel:

	June 30, 2011	December 31, 2010
Loans and advances to customers, net	116	232
Interest income on loans and advances to customers	2	6 ⁽¹⁾
Customer deposits	35,755	29.590
Interest expense on deposits	502	421 ⁽¹⁾
Fee and commission income	-	-
Commitments and contingent liabilities	-	-

⁽¹⁾ Items represent June 30, 2010 amounts.

Salaries and other benefits paid to the Group's key management approximately amount to TL 21,327 as of June 30, 2011 (2010 - TL 18,968).

Significant part of the related party balances and transactions are with related parties other than the parent or the associate or the joint venture; mainly comprising Koç Group and UCI entities.

Notes to the interim condensed consolidated financial statements at June 30, 2011 (continued)

(Amounts expressed in thousands of TL unless otherwise indicated. These interim condensed consolidated financial statements should be read in conjunction with the review report presented preceding the financial statements.)

22. Events after the reporting period

1. The Bank is in the process to obtain a securitization loan with 5 year maturity amounting to USD 400 million based on diversified payment rights.
2. The Bank has decided to issue TL or equivalent foreign currency bills and/or bonds with different maturities and fixed or floating interest rates determined by the market conditions up to USD 1,250 million which is planned to be sold to real and legal persons outside Turkey in one year period. Necessary authorization is given to management by the Board of Directors to perform the required procedures and to apply to authorities.
3. In accordance with the "Change in communiqué regarding the reserve requirements" published in the Official gazette dated August 6, 2011; reserve requirement ratios for foreign currency liabilities are regulated as stated below. The new ratios are going to be valid starting from August 5, 2011.

Foreign currency liabilities;

Demand, call deposits, private checking accounts, up to 1 month time deposit accounts, up to 3 months time deposit accounts, up to 6 months time deposit accounts and up to 1 year time deposit accounts 11,5%

1 year and over 1 year time deposit accounts 9,5%,

Up to 1 year liabilities excluding deposit (1 year included) 11,5%,

Up to 3 years liabilities excluding deposit (3 years included) 9,5%,

Over 3 years liabilities excluding deposit 8,5%

Yapı ve Kredi Bankası A.Ş.

**Consolidated financial statements
at December 31, 2010
together with independent auditor's report**

Independent auditor's report

To the Board of Directors of Yapı ve Kredi Bankası A.Ş.

We have audited the accompanying consolidated financial statements of Yapı ve Kredi Bankası A.Ş. ("the Bank") and its subsidiaries ("the Group") which comprise the consolidated statement of financial position as at December 31, 2010 and the related consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The consolidated financial statements of the Group as at and for the years ended December 31, 2009 and 2008 were audited by another auditor, who expressed an audit report with an unqualified opinion on those statements on March 23, 2010.

March 8, 2011
Istanbul, Turkey

Index to the consolidated financial statements

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Consolidated statement of financial position as at December 31, 2010

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

	Note	December 31, 2010	December 31, 2009	December 31, 2008
Assets				
Cash and balances with central banks	5	6,034,426	4,229,335	4,717,016
Loans and advances to banks	6	3,372,107	3,796,084	3,310,548
Financial assets held for trading				
- Trading securities	7	376,591	365,923	396,464
- Derivative financial instruments	7-8	693,524	617,704	433,651
Loans and advances to customers	9	57,804,154	42,137,597	42,469,983
Hedging derivatives	8	38,201	128,631	-
Investment securities				
- Available-for-sale	10	5,881,756	2,029,573	1,854,737
- Held-to-maturity	10	12,974,944	13,318,719	12,705,781
Investment in associates and joint ventures accounted for using the equity method	11-12	94,171	83,622	86,947
Goodwill	13	1,023,528	1,023,528	1,023,528
Other intangible assets	14	263,667	216,441	179,697
Property and equipment	15	1,163,080	1,156,183	1,215,588
Deferred income tax assets	22	476,189	482,803	308,958
Other assets	16	1,613,895	1,149,887	989,504
Total assets		91,810,233	70,736,030	69,692,402
Liabilities				
Deposits from banks	17	4,935,470	2,432,179	1,082,841
Customer deposits	18	53,490,950	42,181,386	43,725,847
Funds borrowed	19	12,614,942	8,631,136	9,652,438
Debt securities in issue	20	1,394,904	1,744,478	1,966,298
Derivative financial instruments	8	359,168	268,515	220,782
Financial liabilities designated at fair value	21	-	-	66,434
Current income taxes payable		122,526	69,036	8,339
Deferred income tax liabilities	22	2,132	13	1,030
Hedging derivatives	8	453,663	357,613	-
Other provisions	23	457,185	397,871	377,235
Retirement benefit obligations	24	939,736	964,541	869,255
Insurance technical reserves	25	930,707	866,804	835,200
Other liabilities	26	5,165,086	4,116,055	3,847,688
Total liabilities		80,866,469	62,029,627	62,653,387
Equity				
Share capital and share premium	28	4,822,259	4,822,259	4,822,259
Other reserves	29	306,192	235,993	107,598
Retained earnings	29	5,756,268	3,594,934	2,065,235
Equity attributable to equity holders of the parent		10,884,719	8,653,186	6,995,092
Equity attributable to non-controlling interests		59,045	53,217	43,923
Total equity		10,943,764	8,706,403	7,039,015
Total liabilities and equity		91,810,233	70,736,030	69,692,402

The accompanying notes set out on pages 6 to 109 form an integral part of these consolidated financial statements.

Yapı ve Kredi Bankası A.Ş.

**Consolidated statement of income
for the year ended December 31, 2010**

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

	Note	December 31, 2010	December 31, 2009	December 31, 2008
Interest income	30	6,616,135	7,635,542	7,736,732
Interest expense	30	(3,333,697)	(3,801,028)	(5,067,988)
Net interest income		3,282,438	3,834,514	2,668,744
Fee and commission income	31	2,218,432	2,076,219	1,839,536
Fee and commission expense	31	(348,479)	(351,523)	(334,276)
Net fee and commission income		1,869,953	1,724,696	1,505,260
Foreign exchange gains, net		91,372	130,623	106,278
Net trading, hedging and fair value (loss)/income	32	(25,458)	118,678	38,198
Gains/(losses) from investment securities, net	32	97,153	33,225	(35,574)
Insurance technical income, net	25	116,165	22,532	80,225
Other operating income		261,172	136,351	194,383
Operating income		5,692,795	6,000,619	4,557,514
Impairment losses on loans and credit related commitments, net	34	(393,131)	(1,616,526)	(423,218)
Provision for retirement benefit obligations	24	6,318	(110,302)	(83,674)
Other provisions	23	(188,982)	(185,462)	(253,158)
Other operating expenses	33	(2,324,441)	(2,189,061)	(2,112,246)
Operating profit		2,792,559	1,899,268	1,685,218
Share of profit/(loss) of associates and joint ventures accounted for using the equity method	11-12	6,326	(1,254)	1,166
Profit before income tax		2,798,885	1,898,014	1,686,384
Income tax expense	22	(563,151)	(305,946)	(316,416)
Profit for the year		2,235,734	1,592,068	1,369,968
Attributable to:				
Equity holders of the parent		2,229,073	1,581,830	1,366,260
Non-controlling interest		6,661	10,238	3,708
		2,235,734	1,592,068	1,369,968
Basic and diluted earnings per share attributable to the equity holders of the parent (expressed in TL per thousand share)	35	5.13	3.64	3.94

The accompanying notes set out on pages 6 to 109 form an integral part of these consolidated financial statements.

Yapı ve Kredi Bankası A.Ş.**Consolidated statement of comprehensive income
for the year ended December 31, 2010**

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

	Note	December 31, 2010	December 31, 2009	December 31, 2008
Profit for the year		2,235,734	1,592,068	1,369,968
Exchange differences on translation of foreign operations		(7,886)	256	103,970
Net gains / (losses) on available-for-sale financial assets				
- Unrealised net gains / (losses) arising during the year, before tax		121,518	87,578	9,192
- Net amount reclassified to the statement of income, before tax		(559)	(8,032)	(13,487)
Net investment hedges				
- Net gains (losses) arising on hedges recognized in other comprehensive income, before tax		19,484	(2,941)	(71,800)
- Net amount reclassified to the statement of income, before tax		-	-	-
Cash flow hedges				
- Net losses arising on hedges recognized in other comprehensive income, before tax		(192,346)	-	-
- Net amount reclassified to the statement of income, before tax		65,061	-	-
Income tax relating to components of other comprehensive income	22	(2,952)	(103)	9,224
Other comprehensive income for the year, net of tax		2,320	76,758	37,099
Total comprehensive income for the year		2,238,054	1,668,826	1,407,067
Total comprehensive income attributable to:				
Equity holders of the parent (total)		2,231,533	1,658,094	1,403,101
Non-controlling interest (total)		6,521	10,732	3,966

The accompanying notes set out on pages 6 to 109 form an integral part of these consolidated financial statements

Yapı ve Kredi Bankası A.Ş.

**Consolidated statement of changes in equity
for the year ended December 31, 2010**

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

	Note	Attributable to equity holders of the parent				Total	Non-controlling interest	Total equity
		Share capital	Share premium	Other reserves (Note 29)	Retained earnings (Note 29)			
Balance at January 1, 2008		3,366,580	533,431	43,839	829,603	4,773,453	293,221	5,066,674
Total comprehensive income for the year		-	-	36,841	1,366,260	1,403,101	3,966	1,407,067
Issue of share capital	28	920,000	2,248	-	(1,844)	920,404	-	920,404
Dividends paid		-	-	-	-	-	(1,450)	(1,450)
Transfer to statutory reserves	29	-	-	26,930	(26,930)	-	-	-
Purchase from minority interests	29	-	-	(12)	(101,854)	(101,866)	(251,814)	(353,680)
Balance at December 31, 2008		4,286,580	535,679	107,598	2,065,235	6,995,092	43,923	7,039,015
Total comprehensive income for the year		-	-	76,264	1,581,830	1,658,094	10,732	1,668,826
Dividends paid		-	-	-	-	-	(1,438)	(1,438)
Transfer to statutory reserves	29	-	-	52,131	(52,131)	-	-	-
Balance at December 31, 2009		4,286,580	535,679	235,993	3,594,934	8,653,186	53,217	8,706,403
Total comprehensive income for the year		-	-	2,460	2,229,073	2,231,533	6,521	2,238,054
Dividends paid		-	-	-	-	-	(693)	(693)
Transfer to statutory reserves	29	-	-	67,739	(67,739)	-	-	-
Balance at December 31, 2010		4,286,580	535,679	306,192	5,756,268	10,884,719	59,045	10,943,764

The accompanying notes set out on pages 6 to 109 form an integral part of these consolidated financial statements.

**Consolidated statement of cash flows
for the year ended December 31, 2010**

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

	Note	December 31, 2010	December 31, 2009	December 31, 2008
Cash flows from operating activities				
Net profit		2,235,734	1,592,068	1,369,968
Adjustments for:				
Unrealized gain on financial assets held for trading, net		(7,263)	(12,835)	10,861
Allowances for losses on loans and credit related commitments	34	393,131	1,616,526	423,218
Measurement of derivative financial instruments at fair value		201,313	92,662	(427,324)
Share of profit of associates and joint ventures	11-12	(6,326)	1,254	(1,166)
Amortization of other intangible assets	33	46,089	38,296	40,577
Depreciation of property and equipment	33	142,667	145,629	126,239
(Reversal of) impairment charge on property and equipment	33	(52,942)	(3,888)	1,841
(Reversal of) impairment charge on assets held for resale	33	-	-	522
(Reversal of) impairment charge on intangible assets	33	(2,770)	-	-
Provision for current and deferred income taxes	22	563,151	305,946	316,416
Other provisions	23	188,982	185,462	253,158
Provision for retirement benefit obligations	24	(6,318)	110,302	83,674
Other liabilities		(15,621)	(7,246)	16,572
Unearned commission income		10,317	(19,024)	33,241
Dividend income		(1,083)	(3,403)	(41,553)
Interest income, net	30	(3,282,438)	(3,834,514)	(2,668,744)
Interest paid		(3,285,930)	(4,036,179)	(4,932,679)
Interest received		6,364,978	7,871,848	7,229,845
Effect of exchange rates on financing activities		(288,203)	46,593	498,910
Other, net		178,249	(210,397)	(137,147)
Cash flows from operating profits before changes in operating assets and liabilities		3,375,717	3,879,100	2,196,429
Changes in operating assets and liabilities:				
Net decrease / (increase) in cash balances with central banks		(1,545,638)	318,671	(454,446)
Net decrease / (increase) in loans and advances to banks		(609,275)	1,043,986	(633,039)
Net decrease / (increase) in trading securities		(3,405)	7,901	(91,795)
Net decrease / (increase) in loans and advances to customers		(15,999,242)	(1,383,655)	(10,518,233)
Net (increase) / decrease in other assets		(502,181)	23,985	(919)
Net increase / (decrease) in deposits from banks		2,870,262	1,133,647	(307,505)
Net (decrease) / increase in customer deposits		11,301,385	(1,379,018)	9,118,115
Net increase / (decrease) in other liabilities and provisions		966,486	158,147	(337,943)
Income taxes paid		(503,047)	(419,094)	(135,342)
Net cash from / (used in) operating activities		(648,938)	3,383,670	(1,164,678)
Cash flows from investing activities				
(Purchase of) property and equipment	15	(144,172)	(122,275)	(189,967)
Net book value of property and equipment disposed	15	47,880	39,876	26,792
(Purchase of) intangible assets, net	14	(90,540)	(75,321)	(36,992)
(Purchase of) held-to-maturity securities	10	(3,020,222)	(2,008,035)	(536,931)
Redemption of held-to-maturity securities	10	3,397,712	1,139,115	1,882,322
(Purchase of) available-for-sale securities	10	(9,624,918)	(17,563,113)	(32,149,066)
Sale or redemption of available-for-sale securities	10	5,900,619	17,467,940	31,338,433
Dividends received		1,083	3,403	41,553
Other, net		331	17,403	(8,874)
Net cash from / (used in) investing activities		(3,532,227)	(1,101,007)	367,270
Cash flows from financing activities				
(Repayments of) borrowed funds and debt securities		(7,893,237)	(5,486,363)	(4,187,110)
Proceeds from borrowed funds and debt securities		11,412,846	4,697,611	4,947,351
Issue of ordinary shares		-	-	922,248
Dividend paid to minority		(693)	(1,438)	(1,450)
Net cash from / (used in) financing activities		3,518,916	(790,190)	1,681,039
Net increase / (decrease) in cash and cash equivalents		(662,249)	1,492,473	883,631
Effects of foreign exchange rate changes on cash and cash equivalents		(54,185)	32,709	632,517
Cash and cash equivalents at beginning of year	5	5,078,426	3,553,244	2,037,096
Cash and cash equivalents at end of year	5	4,361,992	5,078,426	3,553,244

The accompanying notes set out on pages 6 to 109 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements at December 31, 2010

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

1. General information

Yapı ve Kredi Bankası A.Ş. ("YKB", the "Parent Bank" or the "Bank" or together with its subsidiaries it is referred to as "the Group" in these consolidated financial statements) was established with the permission of the Council of Ministers of the Republic of Turkey No.3/6710 on September 9, 1944 as a private capital commercial bank, authorised to perform all banking, economic, financial and commercial activities which are allowed by Turkish laws. The statute of the Bank has not changed since its incorporation. The Group provides retail, corporate and private banking, credit cards, insurance, leasing, factoring and investment management services. The Group has operations in Turkey, the Netherlands, Azerbaijan and Russia.

The Group's immediate parent with 81.80% of shareholding is Koç Finansal Hizmetler A.Ş. ("KFS"), a joint venture of UniCredit Group ("UCI") and Koç Group. KFS was established as a financial holding company on March 16, 2001 to combine Koç Group financial services companies under one organization. As of October 22, 2002, Koç Group established a strategic partnership with UCI over KFS.

The Bank's shares have been traded on the Istanbul Stock Exchange ("ISE") since 1987. As of December 31, 2010, 18.20% of the shares of the Bank are publicly traded (2009 - 18.20%; 2008 - 18.20%). The Bank's publicly traded shares are traded on ISE and the representatives of these shares, Global Depository Receipts, are quoted on the London Stock Exchange.

At December 31, 2010, the Group has 16,780 employees (2009 - 16,713 employees; 2008 - 17,359 employees). The Bank has 867 branches operating in Turkey and 1 branch in off-shore region (2009 - 837 branches operating in Turkey, 1 branch in off-shore region; 2008 - 860 branches operating in Turkey, 1 branch in off-shore region and 1 representative office) and 14,411 employees (2009 - 14,333 employees; 2008 - 14,795 employees).

The Bank is registered in Istanbul, Turkey at the following address: Yapı Kredi Plaza D Blok, Levent 34330, İstanbul, Turkey.

These consolidated financial statements for the year ended December 31, 2010 have been approved for issue by the Board of Directors on March 8, 2011.

2. Summary of significant accounting policies

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

A. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis; except for available-for-sale investments, derivative financial instruments, other financial assets and liabilities held for trading and financial assets and liabilities designated at fair value through profit or loss, which have all been measured at fair value.

The carrying values of recognized assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortized cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

Notes to the consolidated financial statements at December 31, 2010

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

2. Summary of significant accounting policies (continued)

Statement of compliance

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

The Bank maintains its books of accounts and prepares its statutory financial statements in accordance with the Banking Law and the “Regulation on Accounting Applications for Banks and Safeguarding of Documents” published in the Official Gazette No. 26333 dated November 1, 2006, which refers to Turkish Accounting Standards and Turkish Financial Reporting Standards issued by the Turkish Accounting Standards Board and additional explanations and notes related to them and other decrees, notes and explanations related to accounting and financial reporting principles published by the Banking Regulation and Supervision Agency (“BRSA”) and other relevant rules promulgated by the Turkish Commercial Code, Capital Markets Board and Tax Regulations. The subsidiaries maintain their books of accounts based on statutory rules and regulations applicable in their jurisdiction. Consolidated financial statements are derived from statutory financial statements with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

Presentation of financial statements

The Group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 4.

Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations as of January 1, 2010:

- IFRIC 17 Distributions of Non-cash Assets to Owners
- IAS 39 Financial Instruments: Recognition and Measurement (Amended) – eligible hedged items
- IFRS 2 Group Cash-settled Share-based Payment Transactions (Amended)
- IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)
- Improvements to IFRSs (May 2008)- All amendments issued are effective as at December 31, 2009, except for IFRS 5 Non-current Assets Held for Sale and Discontinued Operations which clarifies when a subsidiary is classified as held for sale, all its assets and liabilities are classified as held for sale, even when the entity remains a non-controlling interest after the sale transaction. The amendment is applied prospectively.

Notes to the consolidated financial statements at December 31, 2010

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

2. Summary of significant accounting policies (continued)

- Improvements to IFRSs (April 2009)
- IFRS 2 Share-based Payment
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations
- IFRS 8 Operating Segment Information
- IAS 1 Presentation of Financial Statements
- IAS 7 Statement of Cash Flows
- IAS 17 Leases
- IAS 18 Revenue
- IAS 36 Impairment of Assets
- IAS 38 Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation

These standards and interpretations do not have an effect on the accounting policies, financial position or performance of the Group.

Standards issued but not yet effective and not early adopted for which the Group does not expect that the amendment will have impact on the financial position or performance except for the assessment of IFRS 9.

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

The interpretation is effective for annual periods beginning on or after July 1, 2010. This interpretation addresses the accounting treatment when there is a renegotiation between the entity and the creditor regarding the terms of a financial liability and the creditor agrees to accept the entity's equity instruments to settle the financial liability fully or partially. IFRIC 19 clarifies such equity instruments are "consideration paid" in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognized and the equity instruments issued are treated as consideration paid to extinguish that financial liability.

- IFRIC 14 Prepayments of a Minimum Funding Requirement (Amended)

The amendment is effective for annual periods beginning on or after January 1, 2011. The purpose of this amendment was to permit entities to recognize as an asset some voluntary prepayments for minimum funding contributions. Earlier application is permitted and must be applied retrospectively. The Group does not expect that the amendment will have an impact on the financial position or performance.

- IFRS 9 Financial Instruments – Phase 1 financial assets and liabilities, classification and measurement

The new standard is effective for annual periods beginning on or after January 1, 2013. Phase 1 of this new IFRS introduces new requirements for classifying and measuring financial assets and liabilities. Early adoption is permitted. The Group is in the process of assessing the impact of the new standard on the financial position or performance of the Group.

Notes to the consolidated financial statements at December 31, 2010

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

2. Summary of significant accounting policies (continued)

- IAS 32 Classification on Rights Issues (Amended)

The amendment is effective for annual periods beginning on or after February 1, 2010. This amendment relates to the rights issues offered for a fixed amount of foreign currency which were treated as derivative liabilities by the existing standard. The amendment states that if certain criteria are met, these should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment is to be applied retrospectively. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

- IAS 24 Related Party Disclosures (Revised)

The revision is effective for annual periods beginning on or after January 1, 2011. This revision relates to the judgement which is required so as to assess whether a government and entities known to the reporting entity to be under the control of that government are considered a single customer. In assessing this, the reporting entity shall consider the extent of economic integration between those entities. Early application is permitted and adoption shall be applied retrospectively. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

In May 2010 the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. The effective dates of the improvements are various and the earliest is for the financial year beginning July 1, 2010. Early application is permitted in all cases.

- IFRS 3 Business Combinations, effective for annual periods beginning on or after July 1, 2010

This improvement clarifies that the amendments to IFRS 7 Financial Instruments: Disclosures, IAS 32 Financial Instruments: Presentation and IAS 39 Financial Instruments: Recognition and Measurement, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008).

Moreover, this improvement limits the scope of the measurement choices (fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets) only to the components of non-controlling interest that are present ownership interests that entitle their holders to a proportionate share of the entity's net assets.

Finally, it requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), i.e., split between consideration and post combination expenses.

- IFRS 7 Financial Instruments: Disclosures, effective for annual periods beginning on or after January 1, 2011

This improvement gives clarifications of disclosures required by IFRS 7 and emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments.

Notes to the consolidated financial statements at December 31, 2010

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

2. Summary of significant accounting policies (continued)

- **IAS 1 Presentation of Financial Statements, effective for annual periods beginning on or after January 1, 2011**

This amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.

- **IAS 27 Consolidated and Separate Financial Statements, effective for annual periods beginning on or after July 1, 2010**

This improvement clarifies that the consequential amendments from IAS 27 made to IAS 21 The Effect of Changes in Foreign Exchange Rates, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures apply prospectively for annual periods beginning on or after July 1, 2009 or earlier when IAS 27 is applied earlier.

- **IAS 34 Interim Financial Reporting, effective for annual periods beginning on or after January 1, 2011**

This improvement provides guidance to illustrate how to apply disclosure principles in IAS 34 and add disclosure requirements.

- **IFRIC 13 Customer Loyalty Programmes, effective for annual periods beginning on or after January 1, 2011**

This improvement clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.

- **IFRS 7 Financial Instruments: Disclosures as part of its comprehensive review of off balance sheet activities (Amended)**

The amendment is effective for annual periods beginning on or after July 1, 2011. The purpose of this amendment is to allow users of financial statements to improve their understanding of transfer transactions of financial assets (e.g. securitizations), including understanding the possible effects of any risks that may remain with the entity which transferred the assets. The amendment also requires additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. The amendments broadly align the relevant disclosure requirements of IFRSs and US GAAP. The Group does not expect that this amendment will have an impact on the financial position or performance of the Group.

Notes to the consolidated financial statements at December 31, 2010

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

2. Summary of significant accounting policies (continued)

B. Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries for the year ended December 31, 2010. The financial statements of the Bank's subsidiaries (including special purpose entities that the Bank consolidates) are prepared for the same reporting period as the Bank, using consistent accounting policies.

(a) Subsidiaries

Subsidiaries (including special purpose entity), in which Group has power to control the financial and operating policies for the benefit of the Bank, either (a) through the power to exercise more than 50% of the voting rights relating to shares in the companies owned directly and indirectly by itself; or (b) although not having the power to exercise more than 50% of the voting rights, otherwise having the power to exercise control over the financial and operating policies, have been fully consolidated. The Group sponsors the formation of special purpose entities, which may or may not be directly owned, for the purpose of asset securitization transactions. Such entities are consolidated in the Group's consolidated financial statements when the substance of the relationship between the Group and the entity indicates that control is held by the Group. Subsidiaries and special purpose entities are consolidated from the date on which control is transferred to Group and are no longer consolidated from the date that control ceases.

The statements of financial position and income statements of the subsidiaries and special purpose entity are consolidated on a line-by-line basis and the carrying value of the investment held by YKB and its subsidiaries is eliminated against the related equity. Intercompany transactions and balances between the Group companies are eliminated on consolidation. The dividends arising from subsidiaries are eliminated from profit of the year.

In accordance with the amendments made to IAS 27, from January 1, 2010 onwards:

- A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.
- Losses are attributed to non-controlling interest even if that results in a deficit balance.
- If the Group loses control over a subsidiary, it derecognizes the assets and liabilities and related equity components of the former subsidiary. Any gain or loss is recognized in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost.

Yapı ve Kredi Bankası A.Ş.

Notes to the consolidated financial statements at December 31, 2010

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

2. Summary of significant accounting policies (continued)

Prior to January 1, 2010, in comparison to the above mentioned requirements which were applied on a prospective basis, the following differences applied:

The Group had chosen to account for acquisition and disposal of non-controlling interests as an equity transaction although not specifically required in IAS 27 prior to amendment.

Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these.

Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost.

The list of principal subsidiaries at December 31, 2010, 2009 and 2008 is as follows:

Name of subsidiary	Country of incorporation	Nature of business
Yapı Kredi Finansal Kiralama A.O.	Turkey	Leasing
Yapı Kredi Faktoring A.Ş.	Turkey	Factoring
Yapı Kredi Portföy Yönetimi A.Ş.	Turkey	Portfolio management
Yapı Kredi Yatırım Menkul Değerler A.Ş.	Turkey	Investment management
Yapı Kredi B Tipi Yatırım Ortaklığı A.Ş.	Turkey	Portfolio management
Yapı Kredi Sigorta A.Ş.	Turkey	Insurance
Yapı Kredi Emeklilik A.Ş.	Turkey	Insurance
Yapı Kredi Bank Nederland N.V.	Netherlands	Banking
Stiching Custody Services YKB	Netherlands	Custody services
Yapı Kredi Bank Moscow	Russia	Banking
Yapı Kredi Holding B.V.	Netherlands	Financial holding
Yapı Kredi Azerbaijan	Azerbaijan	Banking
Yapı Kredi Invest LLC	Azerbaijan	Investment management
Enternasyonal Turizm Yatırım A.Ş. ("Enternasyonal")	Turkey	Investment
Agro-san Kimya Sanayi ve Ticaret A.Ş. ("Agro-San")	Turkey	Agricultural chemicals
Yapı Kredi Kültür Sanat Yayıncılık Tic. ve San. A.Ş.	Turkey	Culture / art publications
Yapı Kredi Diversified Payment Rights Finance Co. ⁽¹⁾	Cayman Islands	Special Purpose Company ("SPC")

Name of subsidiary	2010		2009		2008	
	Control rates (%)	Effective rates (%)	Control rates (%)	Effective rates (%)	Control rates (%)	Effective rates (%)
Yapı Kredi Finansal Kiralama A.O.	98.85	98.85	98.85	98.85	98.85	98.85
Yapı Kredi Faktoring A.Ş.	99.96	99.96	99.96	99.96	99.96	99.96
Yapı Kredi Portföy Yönetimi A.Ş.	99.97	99.95	99.97	99.95	99.97	99.95
Yapı Kredi Yatırım Menkul Değerler A.Ş.	99.98	99.98	99.98	99.98	99.98	99.98
Yapı Kredi B Tipi Yatırım Ortaklığı A.Ş.	56.07	56.06	56.07	56.06	56.07	56.06
Yapı Kredi Sigorta A.Ş.	93.94	93.94	93.94	93.94	93.94	93.94
Yapı Kredi Emeklilik A.Ş.	100.00	93.94	100.00	93.94	100.00	93.94
Yapı Kredi Bank Nederland N.V.	100.00	100.00	100.00	100.00	100.00	100.00
Stiching Custody Services YKB	100.00	100.00	100.00	100.00	100.00	100.00
Yapı Kredi Bank Moscow	100.00	100.00	100.00	100.00	100.00	100.00
Yapı Kredi Holding B.V.	100.00	100.00	100.00	100.00	100.00	100.00
Yapı Kredi Azerbaijan	100.00	100.00	100.00	100.00	100.00	100.00
Yapı Kredi Invest LLC	100.00	100.00	100.00	100.00	100.00	100.00
Enternasyonal	99.99	99.96	99.99	99.96	99.99	99.96
Agro-san	100.00	99.99	100.00	99.99	100.00	99.99
Yapı Kredi Kültür Sanat Yayıncılık Tic. ve San. A.Ş.	100.00	99.99	100.00	99.99	100.00	99.99
Yapı Kredi Diversified Payment Rights Finance Co. ⁽¹⁾	-	-	-	-	-	-

- (1) Yapı Kredi Diversified Payment Rights Finance Company is a special purpose entity established for YKB's securitization transactions as explained in Note 20. It is included in the consolidation although YKB or any of its affiliates does not have any shareholding interest in this company.

Notes to the consolidated financial statements at December 31, 2010

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

2. Summary of significant accounting policies (continued)**(b) Associates**

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in associate is accounted for using the equity method of accounting and is initially recognized at cost. The Group's investment in associate includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in the Group's equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associate have been changed where necessary to ensure consistency with the policies adopted by the Group.

The details of the associate at December 31, 2010, 2009 and 2008 are as follows:

Name of associate	Country of incorporation	Nature of business	Original currency	Control rate (%)	2010	Control rate (%)	2009	Control rate (%)	2008
					Effective rate (%)		Effective rate (%)		Effective rate (%)
Banque de Commerce et de Placements ("Banque de Commerce")	Switzerland	Banking	CHF	30.67	30.67	30.67	30.67	30.67	30.67

(c) Joint ventures

The joint venture is an entity in which the Group participates in its capital and has joint control. The joint venture is a real estate investment trust ("REIT") and operates according to special legislation with permission and license and is established in Turkey. The related joint venture is accounted for using the equity method.

The Group's share of its joint ventures' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in the Group's equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealized gains on transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the joint venture. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint venture have been changed where necessary to ensure consistency with the policies adopted by the Group.

Notes to the consolidated financial statements at December 31, 2010

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

2. Summary of significant accounting policies (continued)

The details of the joint venture at December 31, 2010, 2009 and 2008 are as follows:

Name of joint venture	Country of incorporation	Nature of business	Original currency	Control rate (%)	2010	2009	2008
					Effective rate (%)	Effective rate (%)	Effective rate (%)
Yapı Kredi Koray Gayrimenkul Yatırım Ortaklığı A.Ş.	Turkey	REIT	TL	30.45	30.45	30.45	30.45

(d) Fund management

The Group manages and administers open-ended mutual funds and private pension funds. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's fund management is set out in Note 40.

C. Foreign currency translation**(a) Functional and presentation currency**

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

The consolidated financial statements are presented in TL, which is the Bank's functional and the Group's presentation currency, and all values are rounded to the nearest thousands, except when otherwise indicated.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(c) Group companies

The results and financial position of all the group entities that have a functional currency different from the presentation currency (none of which has the currency of a hyperinflationary economy) are translated into the presentation currency as follows:

- (i) assets and liabilities for each statement of financial position presented are translated at the exchange rate prevailing at the date of that statement of financial position,
- (ii) income and expenses for each statement of income are translated at average exchange rates.

Notes to the consolidated financial statements at December 31, 2010

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

2. Summary of significant accounting policies (continued)

Exchange differences resulting from the different rates applied for the translation of the statement of financial position and the statement of income as well as differences arising from the translation of the portion of the net asset value in foreign entities pertaining to the Group are recognized as “currency translation differences / translation reserves” included in other reserves in equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings designated as hedges of such investments, are taken to equity.

When a foreign operation is sold, such exchange differences are recognized in the income statement as part of the gain or loss on the sale.

D. Related parties

For the purpose of these consolidated financial statements, shareholders, companies controlled by or affiliated with them and other companies within the Koç Group and the UniCredit Group as well as key management personnel are considered and referred to as related parties (Note 39).

E. Due from other banks

Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortized cost.

F. Financial assets and liabilities at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. Financial assets and financial liabilities are designated at fair value through profit or loss when doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments such as loans and advances to customers or banks and debt securities in issue were carried at amortized cost.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in ‘net trading, hedging and fair value income and loss.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated as hedging instruments.

Financial assets at fair value through profit or loss are initially recognized and subsequently re-measured at fair value. All related realized and unrealized fair value gains and losses are included in net trading income. Interest earned whilst holding financial assets at fair value through profit or loss is reported as interest income.

All purchases and sales of trading assets that require delivery within the time frame established by regulation or market convention (“regular way” purchases and sales) are recognized at the settlement date, which is the date that the asset is delivered to/by the Group. Any change in fair value of the trading assets to be received during the period between the trade date and the settlement date is recognized in profit or loss.

Notes to the consolidated financial statements at December 31, 2010

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

2. Summary of significant accounting policies (continued)

G. Investment securities

Investment securities are classified into the following two categories: held-to-maturity and available-for-sale assets. Investment securities with fixed maturity, where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, or client's servicing activity are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase.

Investment securities are initially recognized at fair value which is the cash consideration including transaction costs. Available-for-sale financial assets are subsequently re-measured at fair value. Gains and losses arising from changes in the fair value of securities classified as available-for sale revaluation are recognized as other comprehensive income in the "available-for-sale revaluation reserve" included in other reserves, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity is transferred to the income statement.

Held-to-maturity investments are carried at amortized cost using the effective yield method, less any provision for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate.

Equity securities classified as available-for-sale are carried at fair values except unlisted equity securities, which are measured at cost after deduction for any impairment (Note 10).

Interest earned whilst holding investment securities is reported as interest income. Dividends earned whilst holding available-for-sale financial investments are recognized in the statement of income when the right of the payment has been established.

All purchases and sales of investment securities are recognized at the settlement date, which is the date the asset is delivered to/by the Group. Any change in fair value of the available-for-sale securities to be received during the period between the trade date and the settlement date is recognized in other comprehensive income.

Unsettled transactions are recorded as off statement of financial position commitments until the settlement date.

H. Repurchase and reverse repurchase agreements

Securities sold subject to linked repurchase agreements ("repos") are not derecognized from the statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognized in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within deposits from banks and customer deposits, reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase price is treated as interest expense and amortized over the life of repo agreements using the effective interest method.

Conversely securities purchased under agreements to resell ("reverse repo") are not recognized in the statement of financial position. The consideration paid, including accrued interest, is recorded as loans and advances to banks in the statement of financial position. The difference between the purchase and resale prices is recorded in "interest income" and is accrued over the life of the agreement using the effective interest method.

Notes to the consolidated financial statements at December 31, 2010

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

2. Summary of significant accounting policies (continued)

I. Loans and advances to customers

Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortized cost, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in the income statement in "impairment losses on loans and credit related commitments".

The Group holds appropriate collateral for each loan according to its specified risk and the relevant Banking Regulation and Supervision Agency ("BRSA") communiqués. The collateral strategy differentiates between collateral types on the basis of customers' ratings and loan terms. In general, the types of collaterals are cash collaterals, mortgages, guarantees, promissory notes, securities issued by the Turkish Treasury Undersecretariat and Central Bank and pledge on assets.

J. Impairment of financial assets

Financial assets carried at amortized cost

The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses are recognized in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers whether a financial asset is impaired is its overdue status and realizability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any installment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the bank obtains;
- the borrower considers bankruptcy or a financial reorganization;
- there is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower.

In practice, the Group uses a set of obligatory and judgement-based triggers that can lead to a classification as impaired. The final decision on impaired classification is always subject to expert judgement. Obligatory triggers include bankruptcy, financial restructuring and 90 days' past due. Judgement-based triggers include elements such as (but are not limited to) negative equity, regular payment problems, improper use of credit lines, legal action by other creditors. These triggers are complementary to the judgement of an expert.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Notes to the consolidated financial statements at December 31, 2010

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

2. Summary of significant accounting policies (continued)

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

The Group adopted Incurred But Not Reported ("IBNR") model for performing loans with intrinsic elements such as loss detection period ("LDP") and expert views. IBNR impairments on loans represent the provisions that are created not only for transactions on which loss events were individually identified, but also for the transactions where loss events have already occurred, but have not been reported yet. In such cases provision is created in such proportion to the exposure that reflects the amount of losses that have been incurred as a result of the past but not reported events.

Impairment losses are always recognized through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. If the loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written-off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

Financial assets classified as available for sale

For available-for-sale financial investments, the Group assesses at each statement of financial position date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement – is removed from equity and recognized in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognized directly in equity.

Notes to the consolidated financial statements at December 31, 2010

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

2. Summary of significant accounting policies (continued)

K. Derivative financial instruments

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. The fair values of derivative financial instruments that are quoted in active markets are determined from quoted market prices in active markets including recent market transactions. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques, including discounted cash flow models. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed. Fair values of derivatives are carried as assets when positive and as liabilities when negative. The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received). Derivative financial instruments are classified as held for trading and hedging.

Certain derivative transactions, even though providing effective economic hedges under the Group risk management position, do not qualify for hedge accounting under the specific rules in IAS 39, and are therefore treated as derivatives held for trading with fair value gains and losses reported in income statement.

Certain derivatives embedded in other financial instruments, such as credit linked notes ("CLN"), cross maturity swaps ("CMS"), are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognized in the consolidated income statement unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

Embedded derivatives are separated from the host contract and accounted for as a derivative in accordance with IAS 39, if and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

If an embedded derivative is separated, the host contract shall be accounted for under IAS 39 if it is a financial instrument and in accordance with other appropriate standards if it is not a financial instrument.

Notes to the consolidated financial statements at December 31, 2010

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

2. Summary of significant accounting policies (continued)

L. Hedge accounting

The Group makes use of derivative instruments to manage exposures to interest rate and foreign currency risks, including exposures arising from forecast transactions and firm commitments. In order to manage particular risks, the Group applies hedge accounting for transactions that meet the specified criteria. The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the instruments that are used in hedging transactions are highly effective in offsetting changes in values of hedged items.

Net investment hedge

The effective portion of the foreign exchange differences of borrowings that are designated and qualify as net investment hedges are recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Effective changes in fair value of interest rate swaps and related hedged items are reflected in "net trading, hedging and fair value income". Any ineffectiveness is also recorded in "net trading, hedging and fair value income".

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to profit or loss over the period to maturity.

Cash flow hedge

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognized directly in equity in the 'Cash flow hedge' reserve (hedging reserves are included in other reserves). The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in 'net trading income'.

When the hedged cash flow affects the income statement, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the income statement. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the hedged transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Notes to the consolidated financial statements at December 31, 2010

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

2. Summary of significant accounting policies (continued)

M. Property and equipment

All property and equipment are carried at cost less accumulated depreciation and accumulated impairment if any. Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful life as follows:

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

The residual values and useful lives of the assets are reviewed, and adjusted if appropriate, at each statement of financial position date.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and value in use.

Gains and losses on disposal of property and equipment are determined by comparing net proceeds with the carrying amount and recognized in "other operating income/expense" in the income statement.

Expenses for the repair of property and equipment are charged against income. They are, however, capitalized if they result in an enlargement or substantial improvement of the respective assets.

Leasehold improvements comprise primarily the capitalized branch refurbishment costs.

N. Other intangible assets

(i) Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on the basis of the expected useful lives (not exceeding a period of five years).

(ii) Trademarks and customer relationships related intangibles

Intangible assets such as trademarks and customer relationships related intangibles acquired in a business combination are carried at fair value at the acquisition date. The fair value of an intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Group. In other words, the effect of probability is reflected in the fair value measurement of the intangible asset. The Group recognizes at the acquisition date separately from goodwill an intangible asset of the acquiree if the asset's fair value can be measured reliably, irrespective of whether the asset had been recognized by the acquiree before the business combination. Those intangible assets are amortized using the straight-line method over their useful lives, which have been assessed as 10 years.

(iii) Other intangible assets

Expenditures to acquire patents, rights and licenses are capitalized and amortized using the straight-line method over their useful lives of 5 years.

Notes to the consolidated financial statements at December 31, 2010

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

2. Summary of significant accounting policies (continued)

O. Accounting for leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases:

(i) Group company is the lessor

When assets are sold under a finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

(ii) Group company is the lessee

Assets acquired under finance lease agreements are capitalized at the inception of the lease at the fair value of the leased asset, which is the amount of cash consideration given for the leased asset. Lease payments are treated as comprising capital and interest elements; the capital element is treated as reducing the capitalized obligation under the lease and the interest element is charged to income. Depreciation on the leased asset is also charged to income on a straight-line basis over the useful life of the asset.

Operating leases:

(i) Group company is the lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

ii) Group company is the lessee

Leases which do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments, including prepayments (net of any incentives received from the lessor), are recognized as an expense in the income statement on a straight line basis over the lease term. Contingent rentals payable are recognized as an expense in the period in which they are incurred.

Notes to the consolidated financial statements at December 31, 2010

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

2. Summary of significant accounting policies (continued)

P. Goodwill

The excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets, liabilities or contingent liabilities of the acquired subsidiary at the date of acquisition of the control is recorded as goodwill and represents a payment made by the acquirer in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognized. The acquirer also recognizes assets that are capable of being individually identified and separately recognized, intangible assets (e.g. credit card brand value, deposit base and customer portfolio) and contingent liabilities at fair value, irrespective of whether the asset had been recognized by the acquiree before the business combination; if can be distinguished from the goodwill and if the asset's fair value can be measured reliably.

In line with "International Financial Reporting Standard for Business Combinations" ("IFRS 3"), goodwill is not subject to depreciation but is tested annually or more frequently for impairment and carried at cost less accumulated impairment losses, if any, in line with "International Accounting Standard for Impairment on Assets" ("IAS 36").

Q. Business combinations

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognized goodwill.

A business combination involving entities under common control of KFS is a business combination in which all of the combining entities are ultimately controlled by KFS both before and after the business combination, and that control is not transitory. In that respect, the Group considers legal mergers arising between entities ultimately controlled by KFS as business combinations under common control. On the other hand, business combinations involving entities under common control is scoped out of IFRS 3 and there is no other guidance on how to account for such transactions in current IFRS literature.

As there is an absence of a Standard or an Interpretation that specifically applies to business combinations involving entities under common control, the Bank management, in accordance with IAS 8, used its judgment and developed and applied an accounting policy that the management believes resulted in information that is relevant to the economic decision-making needs of users and reflected the economic substance of transactions and not merely its legal form. In making its judgment in accordance with IAS 8, management considered US GAAP as a framework with a similar conceptual framework and applied pooling of interest method applicable under US GAAP in accounting for the business combinations involving entities under common control of KFS.

Since business combinations involving entities under common control of KFS result in a single combined entity, a single uniform set of accounting policies is adopted. Therefore, the combined entity recognizes the assets, liabilities and equity of the combining entities at their existing carrying amounts adjusted only as a result of conforming the combining entities' accounting policies and applying those policies to all periods presented. There is no recognition of any new goodwill or negative goodwill. Similarly, the effects of all transactions between the combining entities, whether occurring before or after the merger, are eliminated in preparing the financial statements of the combined entity.

Expenditures incurred in relation to legal mergers are recognized as expenses in the period in which they are incurred.

Notes to the consolidated financial statements at December 31, 2010

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

2. Summary of significant accounting policies (continued)

R. Impairment of non-financial assets

At each reporting date, the Group evaluates whether there is any impairment indication on the asset. When an indication of impairment exists, the Group estimates the recoverable values of such assets. Impairment exists if the carrying value of an asset or a cash generating unit is greater than its recoverable amount which is the higher of value in use or fair value less costs to sell. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. An impairment loss is recognized immediately in the consolidated income statement. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or group of assets. An impairment loss recognized in prior periods for an asset (excluding goodwill) is reversed if the subsequent increase in the asset's recoverable amount is caused by a specific event since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized as income in the consolidated financial statements.

Impairment losses relating to goodwill cannot be reversed in future periods.

S. Financial liabilities

Financial liabilities including deposits from banks, customer deposits and other borrowed funds are recognized initially at cost. Subsequently, financial liabilities are stated at amortized cost, using the effective interest rate, except for financial liabilities designated at fair value. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

T. Income taxes

(i) Current income tax

Income tax payable (receivable) is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognized as an expense (income) for the period except to the extent that current tax related to items that are charged or credited in other comprehensive income or directly to equity. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

Taxes other than on income are recorded within operating expenses (Note 33).

(ii) Deferred income taxes

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

The principal temporary differences arise from measurement of financial assets and liabilities at fair value, provision for loan impairment, provision for employment termination benefits and unused investment allowances.

Notes to the consolidated financial statements at December 31, 2010

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

2. Summary of significant accounting policies (continued)

Deferred income tax liabilities and assets are recognized when it is probable that the future economic benefit resulting from the reversal of temporary differences will flow to or from the Group. Deferred income tax assets resulting from temporary differences, carry forward of unused tax losses and unused tax credits are recognized to the extent that it is probable that future taxable profit will be available against which the deferred income tax asset can be utilized (Note 22).

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax related to fair value remeasurement of available-for-sale investments and cash flow hedges, which are recognized in other comprehensive income, is also recognized in the other comprehensive income and subsequently in the consolidated income statement together with the deferred gain or loss.

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

U. Retirement benefit obligations**(a) Pension benefits transferable to Social Security Institution ("SSI")**

Yapı ve Kredi Bankası Anonim Şirketi Mensupları Yardım ve Emekli Sandığı Vakfı ("the Fund") is a separate legal entity and a foundation recognized by an official decree, providing all qualified YKB employees with pension and post-retirement benefits. This scheme is funded through payments of both the employees and the employer as required by SSI Law Numbered 506 and are as follows:

	2010		2009		2008	
	Employer (%)	Employee (%)	Employer (%)	Employee (%)	Employer (%)	Employee (%)
Retirement benefit contributions	12	9	12	9	13.5	9
Medical benefit contributions	7,5	5	7.5	5	6	5

The Group's obligation in respect of the Fund has been determined as the value of the payment that would need to be made to Social Security Institution ("SSI") to settle the obligation at the statement of financial position date in accordance with the Temporary Article 20 of the "Law regarding the changes in Social Insurance and General Health Insurance Law and other related laws and regulations" ("New Law") (Note 24). The pension disclosures set out in Note 24 therefore reflect the actuarial parameters and results in accordance with the New Law provisions.

The pension benefits transferable to SSI are defined benefit plans and are calculated annually by an independent actuary who is registered with the Undersecretariat of Treasury.

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

Notes to the consolidated financial statements at December 31, 2010

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

2. Summary of significant accounting policies (continued)

(b) Defined contribution plans

The Bank's subsidiaries in Turkey pay contributions to publicly administered Social Security Institution on a mandatory basis. Foreign subsidiaries contribute to the related government body for the pension scheme of its employees in the country they are domiciled. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

(c) Reserve for employment termination benefits

Provision for employment termination benefits represents the present value of the estimated total provision of the future probable obligation of the Group arising from the retirement of the employees calculated in accordance with the Turkish Labour Law. In accordance with existing social legislation and Turkish Labour Law in Turkey, the Group is required to make lump-sum termination indemnities to each employee whose employment is terminated due to retirement or for reasons other than resignation or misconduct and who has completed at least one year of service. Provision is made for the present value of the defined benefit obligation calculated using the projected unit credit method. All actuarial gains and losses are recognized in the consolidated income statement.

V. Provisions, contingent assets and contingent liabilities

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Where the effect of the time value of money is material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are not included in the consolidated financial statements and are treated as contingent assets or liabilities.

Uncertain tax positions

The Group's uncertain tax positions are reassessed by management at every statement of financial position date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the statement of financial position date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognized based on management's best estimate of the expenditure required to settle the obligations at the statement of financial position date.

Notes to the consolidated financial statements at December 31, 2010

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

2. Summary of significant accounting policies (continued)

W. Interest income and expense

Interest income and expense are recognized in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, incremental costs that are directly attributable to the instrument and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

X. Fee and commission income and expense

Fees and commissions are generally recognized in the income statement on an accrual basis over the life of the transaction to which they refer. Commission income and fees for certain banking services such as import and export-related services, issuance of letters of guarantee, clearing, brokerage and custody services are recorded as income at the time of effecting the transactions to which they relate.

Portfolio and other management, advisory and service fees are recognized based on the applicable service contracts.

Y. Share capital

(i) Share issue costs

Incremental costs directly attributable to the issue of new shares or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(ii) Share premium

When shares are issued, the excess of contributions received over the nominal value of the shares issued is recorded as share premium in equity.

(iii) Dividends on ordinary shares

Dividends on ordinary shares are recognized in equity in the period in which they are approved by the Company's shareholders. Dividends for the year that are declared after the statement of financial position date are dealt with in the subsequent events note.

Z. Acceptances

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers, if the latter fails to meet their obligation. Acceptances are accounted for as off-statement of financial position transactions.

Notes to the consolidated financial statements at December 31, 2010

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

2. Summary of significant accounting policies (continued)

AA. Other credit related commitments

In the normal course of business, the Group enters into other credit related commitments including loan commitments, letters of credit and guarantees. These are reported as off-statement of financial position items at their notional amounts and are assessed using the same criteria as originated loans (Note 2.J). Specific provisions are therefore established when losses are considered probable and recorded as other provisions. The provision for credit related commitments also covers losses from the collective assessment where the commitments are grouped using the internal models developed by the Group stemming from the classification of credit related commitments into risk rating classes based on the observation of a series of parameters related to the borrower and/or to the utilization of the loan.

Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognized.

Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortization of fees recognized in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognized on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the consolidated income statement within "impairment losses on loans and credit related commitments".

AB. Offsetting

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

AC. Cash and cash equivalents

The cash and cash equivalents comprise balances with original maturities less than 90 days including cash and balances with the central banks excluding reserve requirements and loans and advances to banks (Note 5).

Notes to the consolidated financial statements at December 31, 2010

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

2. Summary of significant accounting policies (continued)

AD. Insurance business

The insurance contracts are those contracts that transfer insurance risk. The insurance contracts protect the insured against the adverse economic consequences of loss event under the terms and conditions stipulated in the insurance policy.

The insurance contracts produced by the Group are mainly in fire, marine, accident, engineering and health in non-life branches and group and personal life, and personal accident agreements which are classified under the groups of risk and saving policies in life branches. The highest written premium of the Group is within the health branch.

Non-life insurance contracts

The insurance agreements written in health branch consist of guarantees for the claims regarding the insuree's identification, diagnosis, and treatment. Fire insurance policies cover mainly fire and theft guarantees for household and business premises, as well as additional guarantees such as indemnity, rent deficiency, glass, and loss of profit. Marine insurance (hull, motor or air transport vehicles) covers goods in transit. The Group also writes engineering policies with engineering, assembly, machinery breakdown, electronic equipment, loss of profit coverage, and policies in accident branch including comprehensive insurance for motor vehicles, traffic, third party liability, and breach of trust guarantees. Furthermore, there are agriculture insurance contracts produced by Tarım Sigortaları Havuz İşletmesi A.Ş. and compulsory earthquake insurance contracts produced by Doğal Afet Sigortaları Kurumu.

Life insurance contracts

a) Risk policies:

Annual life

Annual life insurance provides guarantee against the risks that the policyholder may encounter for a year. This insurance covers all risks that the policyholder can be exposed to by providing natural death coverage along with the additional coverage such as accidental death, disability, critical disease, accidental death in public transportation during the policy term. Annual life contracts do not provide surrender and policy loan rights, have not any paid up value, and can be issued for groups and individuals. The age limit is between 18 and 65, premium amount changes according to the risk assessment based on age, sex and health risk assessment.

Credit life

Credit life insurance, provides guarantee against the risks that the policyholder may encounter (death) throughout the period the credit is used. In the event of such a negative situation the credit debt is paid by the credit life insurance and therefore the debtor and the family of the credit holder are financially protected. Credit life insurance products are risk products that do not have any paid up value. The age limit is between 18 and 70 (the period and age cannot exceed 70), premium amount changes according to the risk assessment based on age, sex and health risk assessment. Insurance guarantees can be arranged as fixed or diminishing and premium payments are made at the beginning of the insurance.

Notes to the consolidated financial statements at December 31, 2010

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

2. Summary of significant accounting policies (continued)

b) Saving policies:

Saving life insurance

Saving life insurance products are investment policies of minimum 10 years. The savings at the end of a minimum period of 10 years are paid to the policyholder. These insurances cover death risks as well as additional risk such as disability, critical disease, accidental death, and accidental death in public transportation. Guaranteed amounts are determined as multiple amounts of the monthly insurance premium. The age limit is usually between 18 and 65, and the premium amounts changes according to the risk assessment based on age, sex and health risk assessment. If the return on saving policies exceeds the technical interest guaranteed, the policyholders benefit from the profit share. In accordance with the insurance regulation in force, the Group classifies and accounts for all saving policies as insurance contracts.

c) Annuity products:

The Group offers lifelong annuity products and annuity products with guaranteed periods for beneficiary clients willing to receive payments periodically instead of a bulk compensatory payment. The annual income calculation for lifelong products are made by considering the real age and for annuity products with guaranteed periods, the insurance period is taken into account during the calculation as there is no probability of life or death.

(i) Premium income

Premium income is recognized in the period over which insurance coverage is provided to the policyholder. Premiums received relating to future periods are deferred on a daily pro-rated basis and only recognized in the income statement when earned.

Reinsurance premiums are recognized on the same basis as the related premium income.

(ii) Claims

A provision is made for the estimated cost of claims notified but not settled and incurred but not reported claims ("IBNR") at the statement of financial position date, less amounts recoverable from reinsurers.

The provision for the cost of claims notified but not settled is based upon a best estimate of the cost of settling each outstanding claim, on a case by case basis, after taking into account all known facts, recent past experience and assumptions about the future development of the outstanding cases.

(iii) Unearned premium reserve ("UPR")

Unearned premiums are those portions of the premiums underwritten during the year that relate to the period of risk subsequent to the statement of financial position date for all policies other than life policies with more than one year of maturity. The unearned premium reserve set aside has been computed on a daily pro-rated basis except marine branch. For marine policies, UPR is calculated as 50% of the last three months' premiums.

Notes to the consolidated financial statements at December 31, 2010

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

2. Summary of significant accounting policies (continued)

(iv) Deferred acquisition costs ("DAC")

The direct commission expenses incurred in acquiring the unearned portion of premiums are recorded on gross and a policy by policy basis and are recognized in the income statement on the same basis.

The direct commission expenses incurred in acquiring pension contracts, which are treated as investment contracts, are deferred in the statement of financial position under other assets, to the extent that the Group's subsidiary has secured revenues under these contracts. Such deferred acquisition costs are amortized over 18 months and tested for recoverability at each statement of financial position date.

(v) Life mathematical reserves

The life mathematical reserves have been calculated on the life policies in force at year-end by using actuarial assumptions and formulas approved by the Prime Ministry Undersecretariat of Treasury ("Treasury").

(vi) Life profit share reserve

Life profit share is the portion of investment income allocated to life policy holders from income generated due to premiums of life policies with a savings clause. Such policies normally have at least 10 years of maturity and policy holders are entitled to receive a profit share after 3 years from the date of policy issuance. Profit share is calculated on an individual policy basis. Investment income presented within income from insurance operations represents income generated through utilization of funds associated with mathematical reserves in various investment tools whereas the provision for profit share represents the amount allocated to policy holders out of investment income after certain deductions.

(vii) Provision for unexpired risks

Adequacy of UPR is tested by considering net incurred claims to net earned premiums ratio for the last calendar year based on existing contracts on branch basis. If the calculated loss ratio is higher than 95%, provision for unexpired risk is accounted for by multiplying net unearned premium reserve with the portion exceeding 95%.

(viii) Liability adequacy test

At each statement of financial position date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. Any deficiency is immediately charged to profit or loss. The Group has no additional liability with respect to the life insurance portfolio of its subsidiary since in its revised tariffs the subsidiary changed the basis of its life profit share calculation to guarantee an annual return of the lower of the guaranteed rate or the annual inflation rate.

(ix) Liability to pension contract holders for loyalty reward

The Group's subsidiary also calculates a liability for its pension contracts, recorded under other liabilities, which represent the present value of the entrance fees received from pension contract holders, since the Group's subsidiary has an unconditional commitment to return such entrance fees, adjusted for inflation, back to the contract holders when they meet certain loyalty criteria, that is when they remain invested in the pension funds under the management of the subsidiary for 10 years. Loyalty criteria is "until retirement" instead of "10 years" for the contracts issued after August 9, 2008. The present value of such liability is calculated using the long term real interest rate of 5.92% and the persistency rate of pension contract holders.

Notes to the consolidated financial statements at December 31, 2010

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

2. Summary of significant accounting policies (continued)

AE. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in head office. Income and expenses directly associated with each segment are included in determining business segment performance.

In accordance with IFRS 8, the Group has the following business segments: Retail banking, Corporate and commercial banking, Private banking and wealth management, Foreign operations and Other.

AF. Earnings per share

Earnings per share disclosed in the consolidated income statement are determined by dividing net income by the weighted average number of shares outstanding during the year concerned in Note 35.

AG. Dividends on ordinary shares

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Bank's shareholders.

AH. Comparatives

Comparative figures are reclassified, where necessary, to conform to changes in presentation of the December 31, 2010 consolidated financial statements. Accordingly, for the purpose of consistent presentation, certain figures in the previously audited consolidated statement of cash flows, statement of comprehensive income and statement of income are reclassified, deferred income tax assets have been netted with the deferred income tax on liabilities on a single company basis and Yapı Kredi Koray Gayrimenkul Yatırım Ortaklığı A.Ş. which was previously included as available-for-sale investments has been accounted for using the equity method and classified as joint venture.

3. Critical accounting estimates and judgements in applying accounting policies

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

Judgements apart from those involving estimations, that have the most significant effect on the amounts recognized in the consolidated financial statements include:

Held-to-maturity financial assets: Management applies judgement in assessing whether financial assets can be categorized as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than for certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortized cost. If the entire class of held-to-maturity investments is tainted, the carrying amount would increase by TL 766,537 (2009 – increase by TL 663,481 by TL; 2008 - decrease by TL 223,331), with a corresponding entry in the available-for-sale revaluation reserve in equity (Note 4.F).

Notes to the consolidated financial statements at December 31, 2010

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

3. Critical accounting estimates and judgements in applying accounting policies (continued)

Finance leases and derecognition of financial assets: Management applies judgement to determine if substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to counterparties, in particular which risks and rewards are the most significant and what constitutes substantially all risks and rewards.

Special purpose entities: Judgement is also required to determine whether the substance of the relationship between the Group and a special purpose entity indicates that the special purpose entity is controlled by the Group.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of available-for-sale investments

The Group reviews its debt securities classified as available –for-sale investments at each statement of financial position date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances.

The Group also determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement the Group evaluates, among other factors, the volatility in share price and duration and extent to which the fair value of an investment is less than its cost. In addition, objective evidence of impairment may be deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financing cash flows. Had all the declines in fair value below cost been considered significant or prolonged, the Group would not suffer any additional loss, being the transfer of the total debit balance in the fair value reserve to profit or loss.

Impairment losses on loans and advances

The methodology and assumptions used for estimating both the amount and timing of future cash flows from a portfolio of loans are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the present value of estimated cash flows differ by +/- 5% the provision would be estimated TL 85,398 (2009 - TL 124,489; 2008 - TL 58,239) higher or lower. The Group calculated IBNR provision with intrinsic elements such as loss detection period and expert views. As a result of changes in the internal composition of the loan portfolio in the current year, the Parent Bank revised the collective loan loss provisions by updating the related parameters used with calculation of such provision. As of December 31, 2010, as a result of the revision, TL 114 million is recorded as income.

Fair value of derivatives

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

Tax legislation

Turkish tax legislation is subject to varying interpretations as disclosed in Note 22.

Notes to the consolidated financial statements at December 31, 2010

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

**3. Critical accounting estimates and judgements in applying accounting policies
(continued)**

Pension Fund

The Group determines the present value of funded benefit obligations in accordance with New Law by using several critical actuarial assumptions, including the discount rate, mortality rate, and medical costs as disclosed in Note 24. This approach recognizes the obligations of the Group to make payments to SSI in respect of the benefits which will be transferred to SSI rather than an obligation to make benefit payments to individuals.

Deferred income tax asset recognition

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

Goodwill

Recoverable amount of goodwill was estimated based on value in use calculation as disclosed in Note 13.

Insurance risks

Technical profit in the insurance business of the Group is estimated based on the loss ratio of the business.

4. Financial risk management

The Group's risk management functions are independent from the commercial operations along with committees such as Asset and Liability Committee ("ALCO") and the other individual risk committees covering credit, market and operational risks and are an integral part of ensuring the Group's fulfilment of requirements stipulated by the Banking Law in a manner consistent with shareholders' risk appetites. The risk management function is responsible for: (1) maximizing returns on invested capital and maintaining sustainable growth of profitability (2) monitoring trends in risk exposures and communicating irregularities promptly to senior management (3) monitoring asset and liability profiles for rebalancing actions on a timely basis (4) identifying and classifying the risk structures of products, processes and services (5) developing and validating the credit rating/scoring models and (6) ensuring compliance with Basel II requirements and Turkish Banking Law.

A. Credit risk

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. Credit risk arises mainly from commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancements provided, such, financial guarantees, letters of credit, endorsements and acceptances.

The Group is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets, derivatives and settlement balances with market counterparties and reverse repurchase loans.

Notes to the consolidated financial statements at December 31, 2010

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

4. Financial risk management (continued)

The Group makes available to its customers guarantees which may require that the Group makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to similar risks to loans and are mitigated by the same control processes and policies.

The Group manages credit risk through the following implementations:

- (a) establishment of credit risk policy involving credit risk strategies, implementation of credit policy guidelines, definition of the optimum composition of the overall loan portfolio, credit risk budget and identification of risk positions within legal and group wide limitations;
- (b) monitoring and measuring the evolution of credit risk for all segments, (i.e. by industry, sector, geographical area etc.), presentation of the strategic credit risk related reports to senior management, including evolution of loan provisioning and comparison with peer banks;
- (c) obtaining continuity of operative methodologies (e.g. borrower evaluation, loan and collateral classifications, monitoring and recovery principles) for credit processes (underwriting, monitoring and work-out) and related tools (including testing of new functionalities);
- (d) evaluation of new credit products, changes to existing ones and monitoring them so as to ensure that their profile is coherent with the risk appetite and reputation risk of the Bank (e.g. on the basis of minimum requirements in terms of granting, monitoring, workout procedures, pilot phase definition, regular performance measurement, sustainable and sound introduction and growth criteria, etc.);
- (e) enhancement and monitoring of the rating and scoring models (probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD") as well as pricing models for all segments. This includes:
 - methodological documentation,
 - technical specification for IT implementation and support to local use,
 - definition of process guidelines regarding models usage and use tests,
 - validation,
 - definition of rating override process,
 - definition of credit data warehouse,
 - cooperation with UniCredit Group for internal validation and credit risk Value-at-Risk ("VaR") model development and calculation;
- (f) preparation of credit risk budget in line with predefined lending targets;
- (g) calculation of Cost of Risk and related provisions by segments to better assess the riskiness of loan portfolio and maintain the asset quality;
- (h) definition of provisioning methodologies in line with Banking Regulation and Supervision Agency ("BRSA") and IFRS.

Credit policies reflect the general credit risk principles to be followed throughout the Group's lending activities and the related strategies and goals, as well as shareholders' risk appetites. The credit policy guideline is prepared by the Group's credit risk management department and approved by the Board of Directors.

Notes to the consolidated financial statements at December 31, 2010

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

4. Financial risk management (continued)Parent Bank rating system:

Since 2002, YKB has employed an internal rating model developed together with Oliver Wyman & Company for the credit risk management of its corporate clients. This system was back tested with UniCredit, and is subject to recalibration through changes in customer composition.

Integrated with the underwriting process, the Bank's internal rating model runs five financial and eight qualitative criteria and assigns a probability of default for each borrower, classifying them under a scale of 17 grades examining both quantitative (statement of financial position, income and cash flow analysis, collaterals' value) and qualitative information (management assessment, competitive position, sector performance and environmental factors). This function enables to measure the probability of default at single client level. The outcomes of the grading system reflect the riskiness of each rated customer, and IBNR provisions are set aside in accordance with performing client's rating. In other words, the Bank employs client based risk management methodology for the calculation of cost of credit risk.

The Bank's rating tool concentration by risk classes as of December 31, 2010, 2009 and 2008 is as follows:

	Rating class ⁽¹⁾	Concentration level (%)		
		2010	2009	2008
Above average	1-4	31.2	30.3	32.7
Average	5+ - 6	47.9	47.9	48.3
Below average	7+ - 9	20.9	21.8	19.0

(1) For corporate and commercial clients only

Scoring models are also used throughout the granting and monitoring/collection processes for consumer loans and credit cards segment. These models are to be developed and updated in accordance with changes in customer behaviour.

An application scorecard has also been developed to evaluate SME clients. The model is highly predictive and classifies clients in 23 rating classes.

The above-mentioned methodologies and processes dedicated to different market segments (usage of different credit evaluation tools per segments) gives YKB the ability to measure, manage and monitor credit risk in a more accurate way.

Taking into consideration of the scoring models, the Group classifies its credit portfolio into the following groups as at December 31, 2010:

Group's rating	December 31, 2010		December 31, 2009		December 31, 2008	
	Loans and advances %	Provision coverage %	Loans and advances %	Provision coverage %	Loans and advances %	Provision coverage %
1. Performing loans	93.31	1.20	88.03	1.54	92.20	1.21
2. Watch-listed	3.11	5.81	5.71	8.03	3.68	4.39
3. Legal follow-up	3.58	74.19	6.26	80.62	4.12	60.13
	100.00	3.96	100.00	6.86	100.00	3.76

Notes to the consolidated financial statements at December 31, 2010

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

4. Financial risk management (continued)

The details of the loans and advances past due but not impaired which are classified under the performing loans are as follows;

	December 31, 2010				December 31,	December 31,
	Past due Up to 30 days	Past due 30 - 60 days	Past due 60 - 90 days	Total	2009 Total	2008 Total
Corporate	448,165	41,554	869,663	1,359,382	2,253,048	726,407
Consumer	441,798	169,111	275,548	886,457	813,104	639,166
Creditcards	544,055	170,254	134,763	849,072	1,011,165	891,840
Leasing	5,033	4,826	3,805	13,664	12,609	22,966
	1,439,051	385,745	1,283,779	3,108,575	4,089,926	2,280,379

Loans and advances rescheduled:

Restructuring activities include extended and/or rescheduled payment arrangements, approved external management plans, arrangement of terms of loan such as modification and deferral of payments, interest rate, foreign exchange ("FX") type, collateral structure, additional loan etc, there can also be alternatives of granting additional loan or sale of collaterals, sale of debts, and sale of company.

Restructuring may be applied for watch-listed loans (loans which are under close monitoring, classification as watch is not based on past due days) or loans in nonperforming loan accounts. If restructuring is applied for a watch-listed loan, that loan will stay in performing loan accounts but its terms (FX rate, payment dates, interest rate etc) may be changed.

On the other hand, if restructuring is applied for loans in nonperforming loan accounts that loan will continue to stay at least 6 more months in nonperforming loan accounts and it may be transferred to specified "restructured loan accounts" when both of the following conditions are met: at least 15% collection of loan amount and at least staying 6 months in nonperforming loan accounts. If an additional loan was granted during restructuring, then at least 15% collection necessity becomes at least 30% of total (existing + additional loan). As of December 31, 2010, the total amount of restructured loans included in legal follow up during the year is TL125,709 (2009 - TL103,067; 2008 - TL41,986)

Restructuring policies and practices are consistent with the requirements of the BRSA.

Notes to the consolidated financial statements at December 31, 2010

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

4. Financial risk management (continued)**Maximum exposure to credit risk**

	2010	2009	2008
Credit risk exposures relating to assets on-statement of financial position:			
Loans and advances to banks	3,372,107	3,796,084	3,310,548
Loans and advances to customers			
- Credit cards	8,492,296	7,261,231	7,490,155
- Consumer	9,781,173	7,061,502	6,341,199
- Corporate	35,733,400	24,225,811	24,905,967
- Leasing	1,978,899	2,169,054	2,692,154
- Factoring	1,818,386	1,419,999	1,040,508
Financial assets held for trading:			
- Securities	376,591	365,923	396,464
- Derivative financial instruments	693,524	617,704	433,651
Hedging derivatives	38,201	128,631	-
Investment securities			
- Available-for-sale	5,881,756	2,029,573	1,854,737
- Held-to-maturity	12,974,944	13,318,719	12,705,781
Other assets	1,475,245	1,040,050	821,742
Credit risk exposures relating to off-statement of financial position items:			
Credit related commitments	18,947,336	15,821,910	15,876,389
Other	745,217	551,079	656,084

The above table represents a worst case scenario of credit risk exposure in the absence of any collateral or credit enhancements.

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

4. Financial risk management (continued)**Industry sectors**

The Group uses BRSA definitions for the economic sectors in order to be able to make comparisons with the banking sector wide figures. These definitions are also in line with NACE (European Classification of Economic Activities) classifications which are used within the EU. Through the credit policy, the Board of Directors sets the sectoral limits on lending, and these limits can only be altered by a decision from the Board of Directors. According to YKB's credit policy, each individual sector should not exceed the targeted level of 10% on the overall corporate portfolio. The sector concentration is accordingly monitored and reported on a regular basis. Particular attention is given to some sectors which are considered as "low performers" in terms of high non-performing loan ("NPL") levels. Macroeconomic conditions, NPL levels, expectations about sectors and UCI group policies are taken into consideration in setting and altering the limits. Sectoral classification is defined in terms of the borrower's activity area, not based on collaterals.

	Financial institutions	Manufacturing	Real estate	Wholesale and retail trade	Public sector	Other industries	Individuals	Total
Loans and advances to banks	3,372,107	-	-	-	-	-	-	3,372,107
Loans and advances to customers	1,559,751	13,400,928	353,052	2,622,144	1,292,231	20,302,579	18,273,469	57,804,154
Trading securities – debt securities	67,211	-	-	2,380	300,552	-	-	370,143
Derivative financial instruments	592,815	63,807	-	-	-	1,712	35,190	693,524
Hedging derivatives	38,201	-	-	-	-	-	-	38,201
Investment securities – debt securities	28,123	7,098	-	1,743	18,794,994	2,366	-	18,834,324
Other assets	890,928	-	-	-	20,566	602,284	100,117	1,613,895
As of December 31, 2010	6,549,136	13,471,833	353,052	2,626,267	20,408,343	20,908,941	18,408,776	82,726,348
As of December 31, 2009	7,030,477	9,623,448	365,798	1,992,866	16,297,317	13,747,381	14,420,938	63,478,225
As of December 31, 2008	5,371,448	10,451,083	266,600	2,121,419	15,889,129	14,089,691	13,911,448	62,100,818
Letter of guarantees	1,377,943	5,152,338	224,383	1,178,372	-	6,953,751	60,676	14,947,463
Letter of credits	591,759	2,982,624	47,905	166,099	-	210,818	668	3,999,873
Acceptance credits	-	144,596	-	15,146	-	6,055	-	165,797
Other commitments and contingencies	-	532,419	8,960	21,604	-	16,437	-	579,420
As of December 31, 2010	1,969,702	8,811,977	281,248	1,381,221	-	7,187,061	61,344	19,692,553
As of December 31, 2009	1,175,234	7,235,143	155,613	1,192,766	-	6,527,890	86,343	16,372,989
As of December 31, 2008	991,540	7,005,125	261,034	1,262,671	-	6,938,166	73,937	16,532,473

Notes to the consolidated financial statements at December 31, 2010

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

4. Financial risk management (continued)**Geographical sectors**

Geographical concentrations of total assets:

	Turkey	Italy	Other EU	Other	Total
Cash and balances with central banks	5,903,486	-	34,184	96,756	6,034,426
Loans and advances to banks	2,314,377	1,368	722,111	334,251	3,372,107
Financial assets held for trading					
- Trading securities	376,391	-	200	-	376,591
- Derivative financial instruments	126,542	-	503,675	63,307	693,524
Hedging derivatives	-	-	38,201	-	38,201
Loans and advances to customers, net					
- Credit cards	8,491,792	-	-	504	8,492,296
- Consumer	9,763,649	-	312	17,212	9,781,173
- Corporate	34,076,338	26,437	314,366	1,316,259	35,733,400
- Leasing	1,955,479	-	5,381	18,039	1,978,899
- Factoring	1,818,386	-	-	-	1,818,386
Investment securities					
- Available-for-sale	5,533,639	-	243,453	104,664	5,881,756
- Held-to-maturity	12,822,164	-	140,516	12,264	12,974,944
Investment in associates and joint ventures	-	-	-	94,171	94,171
Goodwill	1,023,528	-	-	-	1,023,528
Other intangible assets	262,453	-	-	1,214	263,667
Property and equipment	1,146,094	-	607	16,379	1,163,080
Deferred income tax assets	474,600	-	-	1,589	476,189
Other assets	1,558,718	3,446	25,719	26,012	1,613,895
As of December 31, 2010	87,647,636	31,251	2,028,725	2,102,621	91,810,233
As of December 31, 2009	67,113,932	14,173	2,310,441	1,297,484	70,736,030
As of December 31, 2008	65,558,736	221,142	1,929,355	1,983,169	69,692,402
Letter of guarantees	13,549,504	412,629	462,069	523,261	14,947,463
Letter of credits	3,063,254	41,391	383,736	511,492	3,999,873
Acceptance credits	149,543	-	2,110	14,144	165,797
Other commitments and contingencies	576,358	-	3,062	-	579,420
As of December 31, 2010	17,338,659	454,020	850,977	1,048,897	19,692,553
As of December 31, 2009	14,648,811	228,845	564,614	930,719	16,372,989
As of December 31, 2008	14,707,194	234,477	828,714	762,088	16,532,473

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4. Financial risk management (continued)**Rating of debt securities:**

Moody's credit rating model	December 31, 2010		December 31, 2009		December 31, 2008	
	Trading securities	Investment securities	Trading securities	Investment securities	Trading securities	Investment securities
Financial assets:						
Aaa	-	70,309	-	90,523	-	36,158
Aa	-	-	190	28,618	-	164,852
Aa2	200	27,266	-	-	-	-
Aa3	-	457,300	-	-	-	-
A2	-	304,986	-	-	-	-
A3	-	163,210	-	-	-	-
Baa	-	-	-	100,901	35,364	62,641
Baa1	-	91,310	-	-	-	-
Baa2	-	189,873	-	-	-	-
Baa3	-	33,730	-	-	-	-
Ba1	-	32,092	-	-	-	-
Ba2	311,991	17,194,168	227,149	13,929,689	-	-
Ba3	-	41,854	46,729	1,117,035	300,308	14,176,139
Unrated	57,952	228,226	52,892	54,596	43,205	78,465
Total	370,143	18,834,324	326,960	15,321,362	378,877	14,518,255

B. Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. As a commercial group, the focus is serving the financial needs of the customers, thereby generating exposure to interest rate, and foreign exchange risk.

The market risk policy of the Group clearly identifies risk-management guidelines. According to the market risk policy, market risk is managed depending on the treatment of the banking book and trading book. The banking book consists of all assets and liabilities arising from commercial activities, sensitive to interest rate and foreign exchange movements. The trading book, on the other hand, includes the positions held for trading, client servicing purposes or for keeping the market maker status.

The trading activity of YKB is realized mainly in FX and securities, which is tolerated within predefined limits. Risk limits are set on an intra-day and end-of-day position basis, as well as on Value at Risk, monitored on a daily basis.

The banking book interest rate risk is measured through the economic value sensitivity method, which implies the potential change in fair value of the interest rate positions resulting from a parallel upward/downward shift of the yield curve. The overall sensitivity is supposed to be within 20% of the Core Tier 1 Capital, as also outlined in Basel II. Interest rate swaps are utilized to mitigate the banking book interest rate risk resulting from the maturity mismatch. Besides Economic Value Sensitivity, an overall Value at Risk, covering all statement of financial position items and Basis Point Value ("BPV") methods are used to measure the structural interest rate risk.

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

4. Financial risk management (continued)

As part of the management of market risk, the Group undertakes various hedging strategies with hedge accounting applied (Note 8). The Group also uses derivative financial instruments such as forwards, swaps, futures and options in the foreign exchange and capital markets. These transactions are considered as effective economic hedges under the Group's risk management policies. However, since they do not qualify for hedge accounting under the specific provisions of IAS 39, they are treated as derivatives held for trading.

The major measurement techniques used to measure and control market risk are outlined below.

(a) Value-at-risk

The Group applies a VaR methodology to its trading portfolios, to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The VaR limits are set by the Board of Directors and revised every year according to the budget and strategic plan of the Group. VaR limit compliance is monitored by Risk Management on a daily basis.

VaR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the "maximum" amount the Group might lose, but only to a certain level of confidence (99%). There is therefore a specified statistical probability (1%) that actual loss could be greater than the VaR estimate. The VaR model of the Group assumes a one-day "holding period" until positions can be closed. The Group's assessment of past movements is based on data for the past 500 days. The Group applies these historical changes in rates, prices, indices, etc. directly to its current positions - a method known as historical simulation. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/factors used in the VaR calculation (back testing). The use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

As VaR constitutes an integral part of the Group's market-risk control regime, VaR limits are established by the Board of Directors annually for all trading portfolio operations. For investment positions, as for the held-to-maturity portfolio, risk appetite limits are applied (VaR/Nominal Positions). Actual exposure against limits, together with a consolidated group-wide VaR, is reviewed daily by Risk Management. Average daily VaR for the trading portfolio of the Group for the twelve months period is TL 1,269 in 2010.

The quality of the VaR model is continuously monitored by back-testing the VaR results for trading books. All back-testing exceptions are investigated, and results are reported to the monthly Executive Committee ("EXCO") meetings.

(a) Group VaR by risk type	12 months to reporting date (2010)		
	Average	High	Low
Foreign exchange risk	634	1,123	408
Interest rate risk of securities	85,474	136,642	51,963
Equities risk	-	-	-
Total VaR ^(*)	78,028	107,545	55,048

Notes to the consolidated financial statements at December 31, 2010

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

4. Financial risk management (continued)

	12 months to reporting date (2009)		
	Average	High	Low
Foreign exchange risk	622	2,260	162
Interest rate risk of securities	153,970	247,332	86,478
Equities risk	-	-	-
Total VaR ^(*)	155,048	246,084	94,778

	12 months to reporting date (2008)		
	Average	High	Low
Foreign exchange risk	310	752	94
Interest rate risk of securities	138,129	363,296	75,249
Equities risk	-	-	-
Total VaR ^(*)	125,824	404,636	73,141

(*) As at 31 December, 2010, 2009 and 2008 total Group VaR also includes derivatives.

(b) Trading portfolio VaR by risk type	12 months to reporting date (2010)		
	Average	High	Low
Foreign exchange risk	634	1,123	408
Interest rate risk of trading securities	635	1,545	222
Equities risk	-	-	-
Total VaR	1,269	2,668	630

	12 months to reporting date (2009)		
	Average	High	Low
Foreign exchange risk	622	2,260	162
Interest rate risk of trading securities	1,904	4,344	333
Equities risk	-	-	-
Total VaR	2,526	6,604	495

	12 months to reporting date (2008)		
	Average	High	Low
Foreign exchange risk	310	752	94
Interest rate risk of trading securities	1,919	7,798	321
Equities risk	-	-	-
Total VaR	2,229	8,550	415

Notes to the consolidated financial statements at December 31, 2010

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

4. Financial risk management (continued)

(c) Non-trading portfolio VaR by risk type	12 months to reporting date (2010)		
	Average	High	Low
Foreign exchange risk	-	-	-
Interest rate risk of investment securities	76,759	105,365	54,206
Equities risk	-	-	-
Total VaR	76,759	105,365	54,206

	12 months to reporting date (2009)		
	Average	High	Low
Foreign exchange risk	-	-	-
Interest rate risk of investment securities	152,522	242,998	91,231
Equities risk	-	-	-
Total VaR	152,522	242,998	91,231

	12 months to reporting date (2008)		
	Average	High	Low
Foreign exchange risk	-	-	-
Interest rate risk of investment securities	123,595	399,821	62,455
Equities risk	-	-	-
Total VaR	123,595	399,821	62,455

(b) Stress tests

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by Risk Management, also indicated in the market risk policy of the Group, include: FX and interest rate stress testing, where stress movements are applied to the FX position and to the banking book. The results of the stress tests are reviewed by EXCO.

i) Foreign exchange risk

Foreign exchange exposure is the result of the mismatch of foreign currency denominated assets and liabilities (including foreign currency indexed ones) together with exposures resulting from off-statement of financial position foreign exchange derivative instruments. The Group takes an exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The limits are set by Board of Directors on the level of exposure in aggregate for both overnight and intra-day positions, which are monitored on a daily basis.

Notes to the consolidated financial statements at December 31, 2010

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

4. Financial risk management (continued)

The table below summarizes the Group's assets and liabilities at carrying amounts, categorized by currency. The off-statement of financial position gap represents the difference between the notional amounts of purchase and sale foreign currency derivative financial instruments.

December 31, 2010

	USD	EUR	Foreign currency		TL	Total
			Other	Total		
Assets						
Cash and balances with central banks	580,667	2,799,528	95,920	3,476,115	2,558,311	6,034,426
Loans and advances to banks	1,218,798	397,656	73,069	1,689,523	1,682,584	3,372,107
Financial assets held for trading						
- Trading securities	10,229	50,969	-	61,198	315,393	376,591
- Derivative financial instruments	49,625	14,871	6,250	70,746	622,778	693,524
Loans and advances to customers ⁽¹⁾	15,060,611	8,443,658	682,800	24,187,069	33,617,085	57,804,154
Hedging derivatives	3,738	-	-	3,738	34,463	38,201
Investment securities						
- Available-for-sale ⁽²⁾	1,323,106	76,327	53,680	1,453,113	4,428,643	5,881,756
- Held-to-maturity	6,880,673	774,441	-	7,655,114	5,319,830	12,974,944
Investment in associates and joint ventures ⁽²⁾	-	-	71,906	71,906	22,265	94,171
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	1,214	1,214	262,453	263,667
Property and equipment	-	607	16,379	16,986	1,146,094	1,163,080
Deferred income tax assets	-	-	1,589	1,589	474,600	476,189
Other assets	348,546	333,668	255,369	937,583	676,312	1,613,895
Total assets	25,475,993	12,891,725	1,258,176	39,625,894	52,184,339	91,810,233
Liabilities						
Deposits from banks	2,736,367	1,409,572	251,314	4,397,253	538,217	4,935,470
Customer deposits	13,874,813	7,076,309	749,046	21,700,168	31,790,782	53,490,950
Funds borrowed	3,355,373	6,778,604	57,961	10,191,938	2,423,004	12,614,942
Debt securities in issue	844,040	550,864	-	1,394,904	-	1,394,904
Derivative financial instruments	50,258	8,482	6,206	64,946	294,222	359,168
Financial liabilities designated at fair value	-	-	-	-	-	-
Current income taxes payable	-	180	-	180	122,346	122,526
Deferred income tax liabilities	-	2,132	-	2,132	-	2,132
Hedging derivatives	101,638	-	-	101,638	352,025	453,663
Other provisions	-	412	-	412	456,773	457,185
Retirement benefit obligations	-	2,737	-	2,737	936,999	939,736
Insurance technical reserves	257,022	59,204	12	316,238	614,469	930,707
Other liabilities	486,280	457,858	12,904	957,042	4,208,044	5,165,086
Total liabilities	21,705,791	16,346,354	1,077,443	39,129,588	41,736,881	80,866,469
Net balance sheet position	3,770,202	(3,454,629)	180,733	496,306	10,447,458	10,943,764
Off-balance sheet derivative instruments net notional position	(4,821,403)	4,390,714	(22,028)	(452,717)	4,459,888	4,007,171
Net foreign currency position	(1,051,201)	936,085	158,705	43,589	14,907,346	14,950,935

(1) Collective impairment allowance of TL 306.393 calculated on foreign currency denominated loans is presented as TL balance in the above currency position table.

(2) Had the investment in associates and joint ventures and available-for-sale ("AFS") equity instruments been excluded from the foreign currency position table as of December 31, 2010, the net foreign currency position of the Group would decrease from TL 43,589 to TL (28,317).

Notes to the consolidated financial statements at December 31, 2010

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

4. Financial risk management (continued)

December 31, 2009

	USD	EUR	Foreign currency		TL	Total
			Other	Total		
Assets						
Cash and balances with central banks	88,474	2,306,349	50,239	2,445,062	1,784,273	4,229,335
Loans and advances to banks	764,160	827,321	78,069	1,669,550	2,126,534	3,796,084
Financial assets held for trading						
- Trading securities	44,227	65,365	-	109,592	256,331	365,923
- Derivative financial instruments	-	-	-	-	617,704	617,704
Loans and advances to customers ⁽¹⁾	11,111,317	6,369,968	586,277	18,067,562	24,070,035	42,137,597
Hedging derivatives	-	-	-	-	128,631	128,631
Investment securities						
- Available-for-sale ⁽²⁾	937,685	70,587	81,434	1,089,706	939,867	2,029,573
- Held-to-maturity	5,986,127	1,275,991	504	7,262,622	6,056,097	13,318,719
Investment in associates and joint ventures ⁽²⁾	-	-	58,939	58,939	24,683	83,622
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	111	111	216,330	216,441
Property and equipment	-	615	16,315	16,930	1,139,253	1,156,183
Deferred income tax assets	-	541	1,333	1,874	480,929	482,803
Other assets	143,529	170,380	192,775	506,684	643,203	1,149,887
Total assets	19,075,519	11,087,117	1,065,996	31,228,632	39,507,398	70,736,030
Liabilities						
Deposits from banks	1,199,071	616,659	196,714	2,012,444	419,735	2,432,179
Customer deposits	11,504,089	6,994,241	740,414	19,238,744	22,942,642	42,181,386
Funds borrowed	1,512,248	5,658,712	43,017	7,213,977	1,417,159	8,631,136
Debt securities in issue	1,016,282	728,196	-	1,744,478	-	1,744,478
Derivative financial instruments	-	-	-	-	268,515	268,515
Financial liabilities designated at fair value	-	-	-	-	-	-
Current income taxes payable	-	653	-	653	68,383	69,036
Deferred income tax liabilities	-	-	13	13	-	13
Hedging derivatives	-	-	-	-	357,613	357,613
Other provisions	-	7,012	-	7,012	390,859	397,871
Retirement benefit obligations	-	1,938	-	1,938	962,603	964,541
Insurance technical reserves	264,935	55,513	-	320,448	546,356	866,804
Other liabilities	349,144	242,366	19,515	611,025	3,505,030	4,116,055
Total liabilities	15,845,769	14,305,290	999,673	31,150,732	30,878,895	62,029,627
Net balance sheet position	3,229,750	(3,218,173)	66,323	77,900	8,628,503	8,706,403
Off-balance sheet derivative instruments net notional position	(3,092,881)	3,385,106	112,263	404,488	4,072,515	4,477,003
Net foreign currency position	136,869	166,933	178,586	482,388	12,701,018	13,183,406

(1) Collective impairment allowance of TL 352,501 calculated on foreign currency denominated loans is presented as TL balance in the above currency position table.

(2) Had the investment in associates and joint ventures and AFS equity instruments been excluded from the foreign currency position table as of December 31, 2009, the net foreign currency position of the Group would decrease from TL 482,388 to TL 421,543.

Notes to the consolidated financial statements at December 31, 2010

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

4. Financial risk management (continued)

December 31, 2008

	Foreign currency				TL	Total
	USD	EUR	Other	Total		
Assets						
Cash and balances with central banks	89,623	2,696,534	76,159	2,862,316	1,854,700	4,717,016
Loans and advances to banks	1,225,854	1,584,284	247,183	3,057,321	253,227	3,310,548
Financial assets held for trading						
- Trading securities	115,548	82,541	-	198,089	198,375	396,464
- Derivative financial instruments	-	-	-	-	433,651	433,651
Loans and advances to customers ⁽¹⁾	11,182,602	6,555,605	593,652	18,331,859	24,138,124	42,469,983
Hedging derivatives	-	-	-	-	-	-
Investment securities						
- Available-for-sale ⁽²⁾	804,572	87,198	137,463	1,029,233	825,504	1,854,737
- Held-to-maturity	5,655,879	1,162,793	4,042	6,822,714	5,883,067	12,705,781
Investment in associates and joint ventures ⁽²⁾	-	-	55,593	55,593	31,354	86,947
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	124	124	179,573	179,697
Property and equipment	-	806	14,959	15,765	1,199,823	1,215,588
Deferred income tax assets	-	635	660	1,295	307,663	308,958
Other assets	196,261	111,680	77,745	385,686	603,818	989,504
Total assets	19,270,339	12,282,076	1,207,580	32,759,995	36,932,407	69,692,402
Liabilities						
Deposits from banks	320,128	405,518	146,985	872,631	210,210	1,082,841
Customer deposits	12,343,831	6,050,331	601,666	18,995,828	24,730,019	43,725,847
Funds borrowed	2,974,763	5,050,085	17,237	8,042,085	1,610,353	9,652,438
Debt securities in issue	1,095,020	871,278	-	1,966,298	-	1,966,298
Derivative financial instruments	-	-	-	-	220,782	220,782
Financial liabilities designated at fair value	66,434	-	-	66,434	-	66,434
Current income taxes payable	-	904	642	1,546	6,793	8,339
Deferred income tax liabilities	-	-	-	-	1,030	1,030
Hedging derivatives	-	-	-	-	-	-
Other provisions	29,471	-	-	29,471	347,764	377,235
Retirement benefit obligations	-	1,696	-	1,696	867,559	869,255
Insurance technical reserves	262,248	69,493	-	331,741	503,459	835,200
Other liabilities	190,331	472,187	19,626	682,144	3,165,544	3,847,688
Total liabilities	17,282,226	12,921,492	786,156	30,989,874	31,663,513	62,653,387
Net balance sheet position	1,988,113	(639,416)	421,424	1,770,121	5,268,894	7,039,015
Off-balance sheet derivative instruments net notional position	(1,992,079)	864,709	(256,540)	(1,383,910)	1,779,666	395,756
Net foreign currency position	(3,966)	225,293	164,884	386,211	7,048,560	7,434,771

(1) Collective impairment allowance of TL 249,124 calculated on foreign currency denominated loans is presented as TL balance in the above currency position table.

(2) Had the investment in associates and joint ventures and AFS equity instruments been excluded from the foreign currency position table as of December 31, 2008, the net foreign currency position of the Group would decrease from TL 386,211 to TL 308,787.

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

4. Financial risk management (continued)

At December 31, 2010, assets and liabilities denominated in foreign currency were translated into TL using a foreign exchange rate of TL 1.50730 = USD 1, and TL 1.99780 = EUR1 (2009 - TL 1.4680 = USD 1, and TL 2.1062 = EUR1; 2008 - TL 1.4744 = USD1, and TL 2.0872 = EUR 1).

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

Currency risk sensitivity:

The table below represents the sensitivity of the Parent Bank to 15% change of currency exchange rates (USD and EUR). 15% change is the assumption of parity change that may be faced in a possible fluctuation used in the Parent Bank's stress test scenarios.

	December 31, 2010	December 31, 2009	December 31, 2008
Change in currency exchange rate	Profit/loss effect ⁽¹⁾	Profit/loss effect ⁽¹⁾	Profit/loss effect ⁽¹⁾
(+) 15%	(15,330)	(52,405)	4,130
(-) 15%	15,330	52,405	(4,130)

(1) Excluding tax effect.

ii) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest rate risk limits are set in terms of an economic sensitivity limit and Basis Point Value ("BPV") limit. Economic sensitivity analysis is performed according to a scenario of 1% shift in yield curve. The resulting profit/loss should not exceed 20% (Sensitivity Limit) of the Bank's Tier 1 + Tier 2 Capital. The BPV limit restricts maximum interest rate risk position by currency and time buckets. BPV is applied for the banking book and represents the sensitivity of the banking book to 1 bps change in interest rates.

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

4. Financial risk management (continued)

The table below summarizes the Group's exposure to interest rate risk at December 31, 2010, 2009 and 2008. Included in the table are the Group's assets and liabilities in carrying amounts classified in terms of periods remaining to contractual repricing dates.

December 31, 2010	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with central banks	-	-	-	-	6,034,426	6,034,426
Loans and advances to banks	2,282,807	385,433	402,066	2,710	299,091	3,372,107
Financial assets held for trading						
- Trading securities	68,801	55,803	62,147	125,441	64,399	376,591
- Derivative financial instruments	591,743	76,975	23,581	1,225	-	693,524
Loans and advances to customers	18,082,302	14,479,584	16,445,317	7,766,566	1,030,385	57,804,154
Hedging derivatives	9,298	28,903	-	-	-	38,201
Investment securities						
- Available-for-sale	837,277	793,347	2,234,835	1,989,900	26,397	5,881,756
- Held-to-maturity	4,194,347	822,733	2,169,162	5,788,702	-	12,974,944
Investment in associates and joint ventures	-	-	-	-	94,171	94,171
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	-	-	263,667	263,667
Property and equipment	-	-	-	-	1,163,080	1,163,080
Deferred income tax assets	-	-	-	-	476,189	476,189
Other assets	516,252	6,005	-	-	1,091,638	1,613,895
Total assets	26,582,827	16,648,783	21,337,108	15,674,544	11,566,971	91,810,233
Liabilities						
Deposits from banks	3,712,332	688,154	238,299	103,662	193,023	4,935,470
Customer deposits	42,833,680	933,971	366,958	30,530	9,325,811	53,490,950
Funds borrowed	7,741,590	4,028,093	312,164	533,095	-	12,614,942
Debt securities in issue	1,375,419	-	-	19,033	452	1,394,904
Derivative financial instruments	138,469	207,065	13,634	-	-	359,168
Financial liabilities designated at fair value	-	-	-	-	-	-
Current income taxes payable	-	-	-	-	122,526	122,526
Deferred income tax liabilities	-	-	-	-	2,132	2,132
Hedging derivatives	173,886	279,777	-	-	-	453,663
Other provisions	-	-	-	-	457,185	457,185
Retirement benefit obligations	-	-	-	-	939,736	939,736
Insurance technical reserves	30,695	76,694	297,790	123,616	401,912	930,707
Other liabilities	2,605,539	3,734	1,135	-	2,554,678	5,165,086
Total liabilities	58,611,610	6,217,488	1,229,980	809,936	13,997,455	80,866,469
Net interest repricing gap	(32,028,783)	10,431,295	20,107,128	14,864,608	(2,430,484)	10,943,764

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

4. Financial risk management (continued)

December 31, 2009	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with central banks	1,302,954	-	-	-	2,926,381	4,229,335
Loans and advances to banks	3,212,700	95,689	146,168	13,899	327,628	3,796,084
Financial assets held for trading						
- Trading securities	143,878	50,069	63,024	17,097	91,855	365,923
- Derivative financial instruments	477,729	33,246	105,412	1,317	-	617,704
Loans and advances to customers	13,143,049	10,450,643	11,378,469	6,618,735	546,701	42,137,597
Hedging derivatives	128,519	28	84	-	-	128,631
Investment securities						
- Available-for-sale	657,076	267,807	187,114	886,971	30,605	2,029,573
- Held-to-maturity	4,690,434	1,449,880	2,733,148	4,445,257	-	13,318,719
Investment in associates and joint ventures	-	-	-	-	83,622	83,622
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	-	-	216,441	216,441
Property and equipment	-	-	-	-	1,156,183	1,156,183
Deferred income tax assets	-	-	-	-	482,803	482,803
Other assets	278,063	7,572	-	-	864,252	1,149,887
Total assets	24,034,402	12,354,934	14,613,419	11,983,276	7,749,999	70,736,030
Liabilities						
Deposits from banks	1,673,841	481,449	-	-	276,889	2,432,179
Customer deposits	32,119,692	1,619,626	556,231	134,036	7,751,801	42,181,386
Funds borrowed	5,239,191	3,263,947	127,998	-	-	8,631,136
Debt securities in issue	1,743,760	-	-	-	718	1,744,478
Derivative financial instruments	122,982	47,014	74,773	23,746	-	268,515
Financial liabilities designated at fair value	-	-	-	-	-	-
Current income taxes payable	-	-	-	-	69,036	69,036
Deferred income tax liabilities	-	-	-	-	13	13
Hedging derivatives	73,077	40	259,616	24,880	-	357,613
Other provisions	-	-	-	-	397,871	397,871
Retirement benefit obligations	-	-	-	-	964,541	964,541
Insurance technical reserves	-	-	-	-	866,804	866,804
Other liabilities	2,215,932	3,570	-	-	1,896,553	4,116,055
Total liabilities	43,188,475	5,415,646	1,018,618	182,662	12,224,226	62,029,627
Net interest repricing gap	(19,154,073)	6,939,288	13,594,801	11,800,614	(4,474,227)	8,706,403

Notes to the consolidated financial statements at December 31, 2010

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

4. Financial risk management (continued)

December 31, 2008	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with central banks	1,722,570	-	-	-	2,994,446	4,717,016
Loans and advances to banks	2,071,251	247,589	167,279	252,194	572,235	3,310,548
Financial assets held for trading						
- Trading securities	56,051	139,366	99,834	40,601	60,612	396,464
- Derivative financial instruments	196,327	211,642	8,945	16,737	-	433,651
Loans and advances to customers	15,312,447	11,068,731	10,104,984	5,234,258	749,563	42,469,983
Hedging derivatives	-	-	-	-	-	-
Investment securities						
- Available-for-sale	574,391	205,178	397,623	581,104	96,441	1,854,737
- Held-to-maturity	4,681,861	1,207,522	2,356,815	4,459,583	-	12,705,781
Investment in associates and joint ventures	-	-	-	-	86,947	86,947
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	-	-	179,697	179,697
Property and equipment	-	-	-	-	1,215,588	1,215,588
Deferred income tax assets	-	-	-	-	308,958	308,958
Other assets	132,030	7,394	-	-	850,080	989,504
Total assets	24,746,928	13,087,422	13,135,480	10,584,477	8,138,095	69,692,402
Liabilities						
Deposits from banks	737,269	112,933	-	-	232,639	1,082,841
Customer deposits	35,843,769	1,271,331	453,577	98,601	6,058,569	43,725,847
Funds borrowed	6,399,189	2,097,537	959,797	195,915	-	9,652,438
Debt securities in issue	1,966,298	-	-	-	-	1,966,298
Derivative financial instruments	174,035	28,469	1,603	16,675	-	220,782
Financial liabilities designated at fair value	66,434	-	-	-	-	66,434
Current income taxes payable	-	-	-	-	8,339	8,339
Deferred income tax liabilities	-	-	-	-	1,030	1,030
Hedging derivatives	-	-	-	-	-	-
Other provisions	-	-	-	-	377,235	377,235
Retirement benefit obligations	-	-	-	-	869,255	869,255
Insurance technical reserves	-	-	-	-	835,200	835,200
Other liabilities	1,914,008	11,463	55,723	-	1,866,494	3,847,688
Total liabilities	47,101,002	3,521,733	1,470,700	311,191	10,248,761	62,653,387
Net interest repricing gap	(22,354,074)	9,565,689	11,664,780	10,273,286	(2,110,666)	7,039,015

Notes to the consolidated financial statements at December 31, 2010

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

4. Financial risk management (continued)Interest rate sensitivity analysis ⁽¹⁾:

The table below represents the effect of 1% parallel change in the yield curve on assets and liabilities sensitive to interest rate excluding the tax effects.

	December 31, 2010	December 31, 2009	December 31, 2008
Change in Interest rate	Value effect	Value effect	Value effect
(+) %1	(751.170)	(468.288)	(385.324)
(-) %1	842.281	515.509	423.525

(1) The interest rate sensitivity analysis disclosed above is that of the Parent Bank.

The table below summarises weighted average interest rates for financial instruments by major currencies outstanding at December 31, 2010, 2009 and 2008 based on yearly contractual rates.

	December 31, 2010			December 31, 2009			December 31, 2008		
	USD (%)	EUR (%)	TL (%)	USD (%)	EUR (%)	TL (%)	USD (%)	EUR (%)	TL (%)
Assets									
Cash and balances with central banks	-	-	-	-	-	3.78	0.63	1.12	8.64
Loans and advances to banks	2.09	0.36	8.05	1.80	1.06	7.33	1.60	2.71	17.67
Financial assets held for trading	2.86	7.05	8.11	5.81	7.34	8.59	8.15	6.81	19.21
Investment securities									
- Available-for-sale	6.98	5.94	7.85	7.43	7.18	11.73	6.43	7.76	19.63
- Held-to-maturity	6.76	5.69	10.05	6.80	5.54	11.49	7.36	5.99	20.08
Loans and advances to customers	4.63	5.13	12.78	5.29	6.14	17.81	6.04	7.37	24.06
Liabilities									
Deposits from banks	1.36	1.14	7.29	1.68	1.16	2.98	5.39	5.54	16.07
Customer deposits	2.80	2.57	8.70	1.94	1.90	7.87	4.50	3.60	20.28
Debt securities in issue	1.33	1.77	-	1.29	1.76	-	3.82	5.99	-
Financial liabilities designated at fair value	-	-	-	-	-	-	6.16	-	-
Funds borrowed	2.50	2.48	9.15	2.30	2.77	13.29	3.44	5.66	15.67

Notes to the consolidated financial statements at December 31, 2010

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

4. Financial risk management (continued)

C. Liquidity risk

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The liquidity risk is managed within the asset and liability management strategy in accordance with the market risk policies. In this scope, the funding sources are being diversified and sufficient cash and cash equivalents are held to fulfill the obligations associated with financial liabilities. During the monthly meetings of the ALCO, the liquidity position of the Group is evaluated and it is ensured that the required actions are taken when considered necessary.

Liquidity risk is closely monitored within the Group and particular attention is paid to keeping enough cash and cash-equivalent instruments to fund increases in assets or unexpected decreases in liabilities, and to meet legal requirements, thereby optimizing the cost of carrying any excess liquidity. The liquidity policy provides guidelines to quantify the liquidity position and achieve a sound balance between profitability and liquidity needs. Liquidity risk limits are set both for short-term and structural (long-term) liquidity positions.

Within the Group, the following definitions apply to the components of liquidity risk:

1. **Liquidity Mismatch Risk** refers to the risk of non-conformity between the amounts and/or the maturities of cash inflows and cash outflows;
2. **Liquidity Contingency Risk** refers to the risk that future unexpected events could require a greater amount of liquidity than the amount foreseen as necessary for the Group. This risk could arise as a result of events such as the failure by clients to reimburse loans, the need to finance new assets, difficulties in selling liquid assets or obtaining new financings in the event of a liquidity crisis; and
3. **Market Liquidity Risk** refers to the risk that the Group may incur losses as a result of the sale of assets deemed to be liquid, or in extreme conditions is not able to liquidate such positions due to not sufficient liquidity offered by the market or keeps the position that is too large when compared to market turnover. Market liquidity risk is primarily handled via the VaR system in the Credit Risk Officer ("CRO") division and is not a focus of this Liquidity Policy;

Reports on short term liquidity positions and structural liquidity positions are prepared by Risk Management. Short-term liquidity risk management considers the events that will impact upon the Group's liquidity position from one day up to three months. Structural liquidity positions consider the events effecting the Group's liquidity position in the long term. The primary objective is to maintain an adequate ratio between total liabilities and medium or long-term assets, with a view to avoiding pressures on short-term sources (both current and future), while in the meantime optimizing the cost of funding.

According to the BRSA communiqué on liquidity, banks have to meet 80% liquidity ratio of foreign currency assets/liabilities and 100% liquidity ratio of total assets/liabilities for weekly and monthly time brackets. Risk Management performs the calculation of the mentioned ratios on a daily basis and shares the results with Treasury department and senior management.

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

Notes to the consolidated financial statements at December 31, 2010

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

4. Financial risk management (continued)**December 31, 2010**

	Demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Liabilities						
Deposits from banks	194,441	3,694,913	608,791	474,358	119,850	5,092,353
Customer deposits	9,325,811	42,991,449	965,050	407,558	51,541	53,741,409
Funds borrowed	-	3,038,526	5,064,290	3,079,078	2,661,837	13,843,731
Debt securities in issue	-	92,176	290,088	1,076,346	29,829	1,488,439
Financial liabilities designated at fair value	-	-	-	-	-	-
Total liabilities	9,520,252	49,817,064	6,928,219	5,037,340	2,863,057	74,165,932
Assets held for managing liquidity risk (contractual maturity dates)	4,737,231	25,231,991	21,274,279	29,213,815	20,480,550	100,937,866

December 31, 2009

	Demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Liabilities						
Deposits from banks	276,890	1,676,084	487,196	-	-	2,440,170
Customer deposits	7,751,802	32,217,201	1,668,914	614,776	164,736	42,417,429
Funds borrowed	10,300	1,496,769	3,872,085	1,970,505	2,122,797	9,472,456
Debt securities in issue	-	94,950	279,884	1,322,552	618,381	2,315,767
Financial liabilities designated at fair value	-	-	-	-	-	-
Total liabilities	8,038,992	35,485,004	6,308,079	3,907,833	2,905,914	56,645,822
Assets held for managing liquidity risk (contractual maturity dates)	3,773,533	18,078,678	16,345,096	21,757,207	14,514,462	74,468,976

December 31, 2008

	Demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Liabilities						
Deposits from banks	223,527	749,527	115,688	-	-	1,088,742
Customer deposits	5,969,723	36,168,472	1,315,708	526,844	140,178	44,120,925
Funds borrowed	-	2,134,802	4,046,580	2,469,799	2,728,494	11,379,675
Debt securities in issue	-	-	70,460	1,359,451	978,386	2,408,297
Financial liabilities designated at fair value	-	-	67,032	-	-	67,032
Total liabilities	6,193,250	39,052,801	5,615,468	4,356,094	3,847,058	59,064,671
Assets held for managing liquidity risk (contractual maturity dates)	4,276,729	16,795,464	17,050,785	21,463,511	14,999,615	74,586,104

Notes to the consolidated financial statements at December 31, 2010

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

4. Financial risk management (continued)

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

Derivatives settled on a gross basis

December 31, 2010	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivatives held for trading:						
Foreign exchange derivatives:						
- Outflow	7,128,131	8,190,025	4,775,010	3,292,216	598,845	23,984,227
- Inflow	7,327,810	8,587,374	4,731,083	2,758,746	376,825	23,781,838
Interest rate derivatives:						
- Outflow	64,912	88,440	732,505	3,515,151	396,531	4,797,539
- Inflow	65,372	8,536	613,117	3,246,597	353,200	4,286,822
Derivatives held for hedging:						
Interest rate derivatives:						
- Outflow	22,374	135,129	783,959	6,453,882	33,189	7,428,533
- Inflow	1,828	109,620	559,671	5,830,245	30,256	6,531,620
Total outflow	7,215,417	8,413,594	6,291,474	13,261,249	1,028,565	36,210,299
Total inflow	7,395,010	8,705,530	5,903,871	11,835,588	760,281	34,600,280
December 31, 2009	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivatives held for trading:						
Foreign exchange derivatives:						
- Outflow	7,542,363	2,350,088	715,018	267,544	262,528	11,137,541
- Inflow	7,578,917	2,720,600	725,628	353,728	262,528	11,641,401
Interest rate derivatives:						
- Outflow	98,888	897,543	468,219	3,827,142	1,022,597	6,314,389
- Inflow	94,622	893,260	358,828	3,558,805	987,070	5,892,585
Derivatives held for hedging:						
Interest rate derivatives:						
- Outflow	9,847	13,769	139,278	2,066,193	235,690	2,464,777
- Inflow	452	865	8,057	1,806,284	213,395	2,029,053
Total outflow	7,651,098	3,261,400	1,322,515	6,160,879	1,520,815	19,916,707
Total inflow	7,673,991	3,614,725	1,092,513	5,718,817	1,462,993	19,563,039
December 31, 2008	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivatives held for trading:						
Foreign exchange derivatives:						
- Outflow	3,301,229	543,819	2,339,573	41,903	-	6,226,524
- Inflow	3,313,034	544,424	2,613,667	41,498	-	6,512,623
Interest rate derivatives:						
- Outflow	216,750	7,144	308,537	1,980,982	328,646	2,842,059
- Inflow	499,929	1,871,994	163,571	17,636	328,646	2,881,776
Derivatives held for hedging:						
Interest rate derivatives:						
- Outflow	-	-	-	-	-	-
- Inflow	-	-	-	-	-	-
Total outflow	3,517,979	550,963	2,648,110	2,022,885	328,646	9,068,583
Total inflow	3,812,963	2,416,418	2,777,238	59,134	328,646	9,394,399

Notes to the consolidated financial statements at December 31, 2010

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

4. Financial risk management (continued)

D. Operational risk

Operational risk is defined as the risk of losses due to errors, infringements, interruptions, damages caused by internal processes or personnel or systems or caused by external events. Legal and compliance risk is a sub-category of operational risk: it is the risk to earnings from violations or non compliance with laws, rules, regulations, agreements, prescribed practices or ethical standards. Operational Risk Management Department ("ORM") monitors the Group's operational risk exposure in accordance to standards and policies, collects operational risk data in a web-based database, performs the risk indicators' identification, the scenario analysis assessment, Business Continuity Management and assures the quality of data gathered in accordance to Basel II standards, proposes insurance hedging on operational risks and prepares risk mitigation plans. ORM performs second level controls, manages and measures the Group's operational risks.

For regulatory purposes and consideration in statutory capital adequacy ratio, on a consolidated base, the Group calculates the amount subject to operational risk with the basic indicator method in accordance with the Section 4 of the " Regulation Regarding Measurement and Evaluation of Banks' Capital Adequacy Ratio" published in the Official Gazette No. 26333 dated November 1, 2006, namely "The Calculation of the Amount Subject to Operational Risk", based on the gross income of the Group for the years ended 2009, 2008 and 2007. As of December 31, 2010, the total amount subject to operational risk is calculated as TL 8,999,966 (2009 - TL 7,695,259; 2008 - TL 6,418,028) and the amount of the related capital requirement is TL 719,998 (2009 - TL 615,621; 2008 - TL 513,442).

E. Capital management

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

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

Notes to the consolidated financial statements at December 31, 2010

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

4. Financial risk management (continued)

The Group's regulatory capital position on a consolidated basis at December 31, 2010, 2009 and 2008 was as follows:

	December 31, 2010	December 31, 2009	December 31, 2008
Tier I capital			
-Share capital	4,347,051	4,347,051	4,347,051
-Share premium	543,881	543,881	543,881
-Legal reserves	163,959	96,220	44,089
-Retained earnings	2,399,148	1,505,894	1,005,547
-Extraordinary reserves	3,038,543	1,769,658	822,644
-Non-controlling interests	63,095	57,261	47,980
-Provisions for possible risks up to 25% of core capital	124,712	96,616	63,775
-Profit on disposal of associates, subsidiaries and immovables to be transferred to share capital	80,731	61,969	18,513
-Less: intangible assets	(1,243,080)	(1,194,649)	(1,157,825)
-Less: leasehold improvements	(102,899)	(97,938)	-
-Less: Prepaid expenses	(138,650)	(109,837)	(167,762)
Total qualifying Tier I capital	9,276,491	7,076,126	5,567,893
Tier II capital			
-Collective impairment allowance	826,853	755,571	659,018
-Secondary subordinated loan	2,097,218	2,208,374	2,172,900
-Revaluation reserve - available-for-sale-investments	113,759	46,893	15,289
Total qualifying Tier II capital	3,037,830	3,010,838	2,847,207
Deductions			
-Investments in unconsolidated financial institutions and banks	(3,940)	(28,530)	(32,083)
-Investments in financial institutions (domestic, foreign) and banks, in which less than 10% equity interest is exercised and that exceeds 10% and more of the total core and supplementary capital of the Bank	(71,906)	(58,939)	(55,593)
-The net book value of Bank's immovables that are over 50% of shareholders' equity and immovables or commodities that are received on behalf of the receivables from customers and are to be disposed according to Banking Law article 57 as they have been held for more than five years from the acquisition date	(10,705)	(16,145)	-
Total deductions	(86,551)	(103,614)	(87,676)
Total regulatory capital	12,227,770	9,983,350	8,327,424
Amount subject to credit risk	68,300,334	50,885,068	51,093,393
Amount subject to market risk	1,949,350	1,865,338	972,600
Amount subject to operational risk	8,999,966	7,695,259	6,418,028
Total risk weighted assets	79,249,650	60,445,665	58,484,021
Capital adequacy ratio (%)	15.43	16.52	14.24

Notes to the consolidated financial statements at December 31, 2010

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

4. Financial risk management (continued)**F. Fair value of financial instruments**

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists. The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions) without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques.

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Set out below is a comparison, by class, of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the financial statements.

	December 31, 2010		December 31, 2009		December 31, 2008	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial assets:						
Loans and advances to banks	3,372,107	3,391,936	3,796,084	3,799,876	3,310,548	3,340,164
Investment securities (held-to-maturity)	12,974,944	13,741,481	13,318,719	13,982,200	12,705,781	12,482,450
Loans and advances to customers	57,804,154	59,254,992	42,137,597	42,225,440	42,469,983	42,653,501
Financial liabilities:						
Deposits from banks	4,935,470	4,714,321	2,432,179	2,434,939	1,082,841	1,082,849
Customer deposits	53,490,950	53,490,950	42,181,386	42,181,386	43,725,847	43,725,847
Funds borrowed	12,614,942	12,643,111	8,631,136	8,702,533	9,652,438	9,694,556
Debt securities in issue	1,394,904	1,394,904	1,744,478	1,744,478	1,966,298	1,966,298

The estimated fair values of financial instruments have been determined by the Group using available market information and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange.

Loans and advances to banks

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

Notes to the consolidated financial statements at December 31, 2010

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

4. Financial risk management (continued)

Loans and advances to customers

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

Investment securities

Fair value for held-to-maturity securities is based on market prices or prices prevailing at the statement of financial position date announced by the ISE.

Customer deposits, deposits from banks, funds borrowed and debt securities in issue

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

The estimated fair value of other borrowings without quoted market price is based on discounted cash flows using money market interest rates prevailing at the statement of financial position date with similar credit risk, currency and remaining maturity. The fair value of debt securities in issue is considered to approximate its carrying amounts.

The estimated fair value of interest bearing liabilities due to customers is considered to approximate its carrying amounts.

Derivatives

Derivative products valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Derivative products valued using a valuation technique with significant non-market observable inputs are primarily long dated option contracts and certain credit default swaps. These derivatives are valued using models which calculate the present value such as credit models (e.g., default rate models or credit spread models) and the binomial model for options. The models incorporate various indirectly observable assumptions which include the credit spread of the reference asset for credit default swaps, and market rate volatilities.

Financial investments – available-for-sale

Available-for-sale financial assets valued using a valuation technique or pricing models primarily consist of unquoted equities and debt securities.

These assets are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Notes to the consolidated financial statements at December 31, 2010

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

4. Financial risk management (continued)

Other trading assets

Other trading assets valued using a valuation technique consists of certain debt securities. The Group values the securities using valuation models which use discounted cash flow analysis which incorporates either only observable data or both observable and non-observable data. Observable inputs include assumptions regarding current rates of interest and real estate prices; unobservable inputs include assumptions regarding expected future default rates, prepayment rates and market liquidity discounts.

Other liabilities designated at fair value through profit or loss

For unquoted notes issued, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity adjusted for market liquidity and credit spreads.

Determination of fair value and fair value hierarchy:

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

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

Notes to the consolidated financial statements at December 31, 2010

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

4. Financial risk management (continued)**Assets and liabilities measured at fair value**

December 31, 2010	Level 1	Level 2	Level 3⁽¹⁾	Total
Financial assets at fair value through profit and loss				
Financial assets held for trading				
- Debt securities	370,143	-	-	370,143
- Equity securities	6,448	-	-	6,448
- Derivatives	-	693,524	-	693,524
Financial assets designated at fair value through profit or loss				
- Debt securities	-	-	-	-
- Equity securities	-	-	-	-
- Loans and advances to banks	-	-	-	-
- Loans and advances to customers	-	-	-	-
Hedging derivatives	-	38,201	-	38,201
Available-for-sale financial assets				
- Investments securities - debt	4,551,215	1,308,165	-	5,859,380
- Investments securities - equity	240	-	22,136	22,376
Total assets	4,928,046	2,039,890	22,136	6,990,072
Financial liabilities at fair value through profit or loss				
- Derivatives	-	359,168	-	359,168
- Financial liabilities designated at fair value through profit or loss	-	-	-	-
Hedging derivatives	-	453,663	-	453,663
Total liabilities	-	812,831	-	812,831

(1) Non-listed share certificates disclosed in Level 3, are accounted in accordance with IAS 39, at acquisition costs.

Reconciliation of Level 3 Items

December 31, 2010	Investment securities - equity
Available-for-sale financial assets	
Balance at the beginning of the period	24,870
Total profit or losses	-
- Profit or loss	-
- Other comprehensive income	-
Purchases	-
Issues	-
Settlements	-
Transfers to loans and receivables	-
Transfers into or out of Level 3	(2,734)
Balance at the end of the period	22,136
Total profit or losses for the period included in profit or loss for assets/liabilities held at period end	110

In the current year, there is no transfer between Level 1 and Level 2.

Decrease in Level 3 amounting to TL 2,734 is due to sales of non-listed shares.

Notes to the consolidated financial statements at December 31, 2010

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

4. Financial risk management (continued)**G. Fiduciary activities**

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

	December 31, 2010	December 31, 2009	December 31 2008
Investment securities held in custody	18,069,560	19,229,647	15,497,795
Cheques received for collection	6,677,547	5,033,055	5,350,632
Commercial notes received for collection	2,089,277	1,693,290	1,599,651
	26,836,384	25,955,992	22,448,078

5. Cash and cash equivalents for the purpose of presentation in the consolidated statement of cash flows

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

	December 31, 2010	December 31, 2009	December 31 2008
Cash and cash equivalents	702,227	655,565	608,093
Balances with central banks	5,332,199	3,573,770	4,108,923
Reserve deposits with central banks (-)	(4,389,977)	(2,858,552)	(3,220,074)
Loans and advances to banks (with original maturity less than 90 days) (+)	2,467,771	3,518,847	1,981,778
Other cash equivalents (+)	249,772	188,796	74,524
Total	4,361,992	5,078,426	3,553,244

Turkish:

In accordance with the "Communiqué Regarding the Reserve Requirements" numbered 2005/1, the banks operating in Turkey are supposed to place reserves in the Central Bank of the Republic of Turkey ("CBRT") for their TL liabilities by 6% and for their foreign currency liabilities by 11% as USD and/or EUR. As of December 31, 2010, no interest is earned on TL and foreign currency reserve requirements. As explained in detail in Note 41, reserve requirement for TL liabilities have been changed according to "Change in Communiqué Regarding the Reserve Requirements" published in the Official Gazettes numbered 27788 dated December 17, 2010 and numbered 27825 dated January 24, 2011.

Foreign:

Reserve requirements of De Nederlandsche Bank represents reserve deposits equivalent to 2% of the overnight deposits, deposits with agreed maturity or deposits redeemable at notice up to 2 years, debt securities issued with agreed maturity up to 2 years and money market paper.

Reserve requirements of Central Bank of the Russian Federation represent reserve deposits equivalent to 2.5% of the liabilities to non-resident legal entities in all currencies, 2.5% of the liabilities to natural persons in all currencies, 2.5% of the other liabilities in all currencies.

Reserve requirements of National Bank of Azerbaijan represent reserve deposits equivalent to 0.5% of the statutory balances of customer accounts, due to banks and other funds borrowed.

Notes to the consolidated financial statements at December 31, 2010

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

6. Loans and advances to banks

	December 31, 2010			December 31, 2009			December 31, 2008		
	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total
TL:									
Nostro/ demand deposits	55,720	880	56,600	31,456	6,398	37,854	28,778	7,619	36,397
Time deposits	626,335	25,576	651,911	453,626	53,595	507,221	82,875	2,578	85,453
Interbank money market	974,073	-	974,073	1,581,459	-	1,581,459	126,497	4,880	131,377
	1,656,128	26,456	1,682,584	2,066,541	59,993	2,126,534	238,150	15,077	253,227
Foreign currency:									
Nostro/ demand deposits	16,218	226,273	242,491	14,367	275,407	289,774	12,054	523,784	535,838
Time deposits	642,031	805,001	1,447,032	488,785	890,991	1,379,776	575,275	1,849,623	2,424,898
Interbank money market	-	-	-	-	-	-	29,968	66,617	96,585
	658,249	1,031,274	1,689,523	503,152	1,166,398	1,669,550	617,297	2,440,024	3,057,321
	2,314,377	1,057,730	3,372,107	2,569,693	1,226,391	3,796,084	855,447	2,455,101	3,310,548

7. Financial assets held for trading

	December 31, 2010	December 31, 2009	December 31, 2008
Government bonds and treasury bills	256,818	207,224	193,854
Government bonds and treasury bills sold under repurchase agreements	43,734	66,654	106,454
Other debt securities	69,591	53,082	78,569
Total debt securities	370,143	326,960	378,877
Equity securities - listed	6,448	38,963	17,587
Total equity securities	6,448	38,963	17,587
Total securities	376,591	365,923	396,464
Derivative financial instruments	693,524	617,704	433,651
Total financial assets held for trading	1,070,115	983,627	830,115

Government bonds and treasury bills are discount and coupon securities issued by the Government of the Republic of Turkey. Other debt securities mainly represent A and B type open-ended mutual funds incorporated in Turkey managed by the Group and carried for resale to customers.

8. Derivative financial instruments and hedging activities

The Group utilises the following derivative instruments:

“Currency forwards” represent commitments to purchase or sell foreign and domestic currency, including undelivered spot transactions. Forwards are customized contracts transacted in over-the-counter (OTC) market. The Group has credit exposure to the counterparties of forward contracts.

Notes to the consolidated financial statements at December 31, 2010

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

8. Derivative financial instruments and hedging activities (continued)

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

Options are contractual agreements that convey the right to the buyer and the obligations to the writer to buy or sell an asset at a specified price either at a fixed future date or at any time within a specified period. Major part of the Group’s option book activity stems from the clients’ needs; therefore to meet the client demands Group actively runs an option book on the residual open positions which are not fully covered. The Group is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.

“Interest rate cap and floor arrangements” provide the purchaser with the right to receive interest rate differential payments on a notional amount when the indexed rate is in excess of the specified cap rate and limits the benefit of reductions in interest rates if it occurs.

As of December 31, 2010, the Bank’s credit derivatives portfolio is composed of “credit linked notes” (embedded derivatives are separated from host contract in line with IAS 39 and recorded as credit default swaps) and “credit default swaps”. Credit default swaps are contracts, in which the seller commits to pay the contract value to the buyer in case of certain credit risk events in return for the premium paid by the buyer for the contract. Credit default swaps are valued daily by the valuation model of the Bank and then accounted over their fair values while credit linked notes are valued and accounted monthly.

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

Notes to the consolidated financial statements at December 31, 2010

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

8. Derivative financial instruments and hedging activities (continued)

December 31, 2010

	Contract/ notional amount (aggregate of buy and sell)	Assets	Fair values Liabilities
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	5,287,933	24,255	33,661
Currency swaps	24,093,958	314,657	195,156
Over the counter ("OTC") currency options	10,928,414	77,679	75,371
Other derivatives	918,313	6,922	9,455
Total OTC foreign exchange derivatives	41,228,618	423,513	313,643
Interest rate derivatives:			
Interest rate swaps	3,541,598	29,705	36,885
Cross-currency interest rate swaps	3,274,251	240,306	8,640
Total OTC interest rate derivatives	6,815,849	270,011	45,525
Total derivative assets/ (liabilities) held for trading	48,044,467	693,524	359,168
Derivatives used for hedging			
Derivatives designated as fair value hedges:			
Cross-currency interest rate swaps	4,317,238	34,462	313,917
Derivatives designated as cash flow hedges:			
Interest rate swaps	8,527,020	3,739	139,746
Total derivative assets/ (liabilities) used for hedging	12,844,258	38,201	453,663
Total recognized derivative assets/ (liabilities)	60,888,725	731,725	812,831
Current		664,284	188,316
Non-current		67,441	624,515
Total recognized derivative assets/ (liabilities)	60,888,725	731,725	812,831

Notes to the consolidated financial statements at December 31, 2010

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

8. Derivative financial instruments and hedging activities (continued)

December 31, 2009

	Contract/ notional amount (aggregate of buy and sell)	Assets	Fair values Liabilities
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	4,076,196	39,284	42,170
Currency swaps	13,815,348	474,910	12,707
OTC currency options	3,938,532	30,974	30,880
Other derivatives	423,808	-	-
Total OTC foreign exchange derivatives	22,253,884	545,168	85,757
Interest rate derivatives:			
Interest rate swaps	7,191,104	38,170	25,336
Cross-currency interest rate swaps	3,025,092	33,889	156,490
OTC interest rate options	1,793,988	477	932
Total OTC interest rate derivatives	12,010,184	72,536	182,758
Total derivative assets/ (liabilities) held for trading	34,264,068	617,704	268,515
Derivatives used for hedging			
Derivatives designated as fair value hedges:			
Cross-currency interest rate swaps	3,968,893	128,631	357,613
Derivatives designated as cash flow hedges:			
Interest rate swaps	-	-	-
Total derivative assets/ (liabilities) used for hedging	3,968,893	128,631	357,613
Total recognized derivative assets/ (liabilities)	38,232,961	746,335	626,128
Current		494,171	126,341
Non-current		252,164	499,787
Total recognized derivative assets/ (liabilities)	38,232,961	746,335	626,128

Notes to the consolidated financial statements at December 31, 2010

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

8. Derivative financial instruments and hedging activities (continued)

December 31, 2008

	Contract/ notional amount (aggregate of buy and sell)	Assets	Fair values Liabilities
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	3,875,363	83,184	65,999
Currency swaps	8,047,504	235,958	50,147
OTC currency options	769,814	1,847	521
Other derivatives	46,462	-	-
Total OTC foreign exchange derivatives	12,739,143	320,989	116,667
Interest rate derivatives:			
Interest rate swaps	3,179,352	526	22,637
Cross-currency interest rate swaps	2,188,339	112,136	81,478
OTC interest rate options	266,440	-	-
Total OTC interest rate derivatives	5,634,131	112,662	104,115
Total derivative assets/ (liabilities) held for trading	18,373,274	433,651	220,782
Derivatives used for hedging			
Derivatives designated as fair value hedges:			
Cross-currency interest rate swaps	-	-	-
Derivatives designated as cash flow hedges:			
Interest rate swaps	-	-	-
Total derivative assets/ (liabilities) used for hedging	-	-	-
Total recognized derivative assets/ (liabilities)	18,373,274	433,651	220,782
Current		370,839	146,828
Non-current		62,812	73,954
Total recognized derivative assets/ (liabilities)	18,373,274	433,651	220,782

Notes to the consolidated financial statements at December 31, 2010

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

8. Derivative financial instruments and hedging activities (continued)**Fair value hedges**

Starting from March 1, 2009, the Group has hedged the possible fair value effects of changes in market interest rates on part of its fixed interest TL mortgage and car loan portfolios and fair value effects of changes in foreign exchange rates on part of its foreign currency denominated funds borrowed using cross-currency interest rate swaps. The net carrying value of hedging instruments at December 31, 2010 is a liability amounting to TL 279,454 (2009 – TL 228,982; 2008 – None). At December 31, 2010, the mark to market difference of the hedging instruments since the inception date of the hedge relationship is TL 240,233 (2009 - TL 147,649; 2008 – None), the fair value difference of the hedged item is TL 224,429 (2009 - TL 140,137; 2008 - None) and their changes in the fair value for the year amounts to TL 84,292 (2009 – TL 140,137; 2008 - None)

Cash flow hedges

The Group is exposed to variability in future interest cash flows on non-trading assets and liabilities which bear interest at a variable rate. The Group uses interest rate swaps as cash flow hedges of these interest rate risks.

In order to hedge its cash flow risk from liabilities, the Group started to apply cash flow hedge accounting from January 1, 2010 onwards. The hedging instruments are USD and TL interest rate swaps with floating receive, fixed pay legs, and the hedged item is the cash outflows due to financing of interests of repricing USD and TL deposits and repos.

Net gain on cash flow hedges reclassified to the statement of income

The net gain / (loss) on cash flow hedges reclassified to the statement of income during the twelve month period ended December 31, 2010 was as follows:

	December 31, 2010	December 31, 2009	December 31, 2008
Net interest income / (expense)	(65,061)	-	-
Taxation	13,012	-	-

During 2010, a loss of TL 4,208 (2009 - None; 2008 - None) was recognized in the statement of income due to hedge ineffectiveness from cash flow hedges.

As of December 31, 2010 net losses arising from cash flow hedges recognized under equity, net of reclassification to statement of income and net of tax, is TL 101,828 (2009 - None; 2008 - None).

There were no transactions for which the cash flow hedge accounting had to be ceased in 2010 or 2009 or 2008 as a result of the highly probable cash flows no longer being expected to occur.

Notes to the consolidated financial statements at December 31, 2010

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

8. Derivative financial instruments and hedging activities (continued)**Net investment hedges**

The Group hedges part of the currency translation risk of net investments in foreign operations through foreign currency borrowings.

The Group's Euro denominated borrowing is designated as a hedge of the net investment in the Group's certain EUR denominated subsidiaries. The total amount of the borrowing designated as a hedge of the net investment at December 31, 2010 is EUR 203 million (2009 - EUR 191 million; 2008 - EUR 169 million). The foreign exchange gain of TL 15,587 (2009 - TL 2,353 loss; 2008 - TL 57,440 loss), net of tax, on translation of the borrowing to TL at the statement of financial position date is recognized in "other reserves" in equity.

No ineffectiveness from hedges of net investments in foreign operations was recognized in profit or loss during the period (2009 - None; 2008 - None).

9. Loans and advances to customers**December 31, 2010**

	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Performing loans	35,151,219	9,264,955	8,244,469	1,674,713	1,824,229	56,159,585
Watch listed loans	927,771	444,659	305,017	193,801	-	1,871,248
Loans under legal follow - up	973,892	378,569	471,482	313,781	18,044	2,155,768
Gross	37,052,882	10,088,183	9,020,968	2,182,295	1,842,273	60,186,601
Specific allowance for impairment	(848,030)	(228,111)	(419,342)	(195,100)	(17,381)	(1,707,964)
Collective allowance for impairment	(471,452)	(78,899)	(109,330)	(8,296)	(6,506)	(674,483)
Total allowance for impairment	(1,319,482)	(307,010)	(528,672)	(203,396)	(23,887)	(2,382,447)
Net	35,733,400	9,781,173	8,492,296	1,978,899	1,818,386	57,804,154
Current						29,997,872
Non-current						27,806,282

December 31, 2009

	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Performing loans	22,964,455	6,631,435	7,083,106	1,717,570	1,429,416	39,825,982
Watch listed loans	1,482,618	361,959	411,500	328,665	-	2,584,742
Loans under legal follow - up	1,242,429	492,319	803,888	284,233	8,173	2,831,042
Gross	25,689,502	7,485,713	8,298,494	2,330,468	1,437,589	45,241,766
Specific allowance for impairment	(1,157,577)	(368,479)	(804,461)	(152,998)	(6,258)	(2,489,773)
Collective allowance for impairment	(306,114)	(55,732)	(232,802)	(8,416)	(11,332)	(614,396)
Total allowance for impairment	(1,463,691)	(424,211)	(1,037,263)	(161,414)	(17,590)	(3,104,169)
Net	24,225,811	7,061,502	7,261,231	2,169,054	1,419,999	42,137,597
Current						23,338,486
Non-current						18,799,111

Notes to the consolidated financial statements at December 31, 2010

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

9. Loans and advances to customers (continued)**December 31, 2008**

	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Performing loans	24,131,553	5,998,995	7,050,632	2,456,562	1,046,234	40,683,976
Watch listed loans	813,328	250,613	394,908	166,171	-	1,625,020
Loans under legal follow - up	889,788	246,739	493,860	183,098	4,984	1,818,469
Gross	25,834,669	6,496,347	7,939,400	2,805,831	1,051,218	44,127,465
Specific allowance for impairment	(634,178)	(103,181)	(321,075)	(101,510)	(4,838)	(1,164,782)
Collective allowance for impairment	(294,524)	(51,967)	(128,170)	(12,167)	(5,872)	(492,700)
Total allowance for impairment	(928,702)	(155,148)	(449,245)	(113,677)	(10,710)	(1,657,482)
Net	24,905,967	6,341,199	7,490,155	2,692,154	1,040,508	42,469,983
Current						25,449,227
Non-current						17,020,756

Fair value of collateral:

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

December 31, 2010

	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Watch listed loans	372,980	174,571	-	107,818	-	655,369
Loans under legal follow - up	190,853	80,735	-	101,858	-	373,446
Total	563,833	255,306	-	209,676	-	1,028,815

December 31, 2009

	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Watch listed loans	410,783	180,037	-	183,043	-	773,863
Loans under legal follow - up	342,043	173,030	-	117,649	-	632,722
Total	752,826	353,067	-	300,692	-	1,406,585

December 31, 2008

	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Watch listed loans	301,121	190,007	-	86,084	-	577,212
Loans under legal follow - up	252,781	77,044	-	79,114	-	408,939
Total	553,902	267,051	-	165,198	-	986,151

Notes to the consolidated financial statements at December 31, 2010

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

9. Loans and advances to customers (continued)

Included in the performing loans and advances to consumers, are loans amounting to TL 2,072,176 (at amortized cost) which have been designated as hedged items in fair value hedges as of December 31, 2010 (2009 – TL 2,083,948; 2008 – None). Those loans have been hedged with interest rate swaps as part of a documented interest rate risk management strategy. The carrying values of such loans that are hedged items in fair value hedges, and otherwise carried at amortized cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

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

	December 31, 2010					
	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
At January 1	1,463,691	424,211	1,037,263	161,414	17,590	3,104,169
Provision for loan impairment	519,567	361,885	339,280	116,017	6,376	1,343,125
Amounts recovered during the year	(162,526)	(327,002)	(395,417)	(72,882)	(96)	(957,923)
Loans written off during the year as uncollectible (-) ^(*)	(502,267)	(152,133)	(452,455)	(1,153)	-	(1,108,008)
Exchange differences	1,017	49	1	-	17	1,084
At December 31	1,319,482	307,010	528,672	203,396	23,887	2,382,447

	December 31, 2009					
	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
At January 1	928,702	155,148	449,245	113,677	10,710	1,657,482
Provision for loan impairment	881,686	653,655	978,839	115,924	7,012	2,637,116
Amounts recovered during the year	(311,816)	(360,390)	(302,991)	(53,484)	(152)	(1,028,833)
Loans written off during the year as uncollectible (-) ^(*)	(33,502)	(24,189)	(87,831)	(14,703)	-	(160,225)
Exchange differences	(1,379)	(13)	1	-	20	(1,371)
At December 31	1,463,691	424,211	1,037,263	161,414	17,590	3,104,169

	December 31, 2008					
	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
At January 1	1,288,466	116,186	501,505	75,472	8,112	1,989,741
Provision for loan impairment	282,209	189,646	304,225	83,564	2,481	862,125
Amounts recovered during the year	(122,654)	(148,766)	(171,159)	(38,073)	(82)	(480,734)
Loans written off during the year as uncollectible (-) ^(*)	(520,521)	(2,410)	(185,345)	(7,286)	-	(715,562)
Exchange differences	1,202	492	19	-	199	1,912
At December 31	928,702	155,148	449,245	113,677	10,710	1,657,482

(*) Includes the effect of provision releases due to sales from loans under legal follow - up.

Notes to the consolidated financial statements at December 31, 2010

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

9. Loans and advances to customers (continued)

As of March 28, 2008, the Bank sold out a non-performing loan portfolio amounting to TL 429,229 selected out of its commercial, corporate and SME problematic loan stocks via adjudication as of March 7, 2008. The corresponding portfolio has eventuated as TL 421,167 after deduction of amounts for which sales transactions were realized except the real estate having right of repurchase. As of the date of the sale, the Bank has recognized provision amounting to TL 376,395 for the related loans stock. As of March 28, 2008, the portion amounting to TL 2,203 out of the total amount of TL 60,500 is kept as the value for the real estate with right to repurchase and the remaining portion amounting to TL 58,297 is collected. After the deduction of mentioned amounts, the portfolio amounting to TL 362,468 has been included in the table above in "Loans written off during the year as uncollectible" line.

At the Board of Directors Meeting held on May 27, 2009; it has been decided to sell out a non-performing loan portfolio amounting to TL 77,424 (excluding the write-offs) included in non-performing loan accounts at a price of TL 26,525. This transaction has affected the financial statements as TL 22,668 of pretax income after legal expenses.

According to the resolution of the Board of Directors of the Parent Bank dated March 15, 2010, portfolios composed of SME loans, consumer loans and credit cards followed under non-performing loan accounts are sold according to auction and confidentiality agreements. Consumer loan portfolio with principal amounting to TL 74,606 as of February 28, 2010 was sold to Standart Varlık Yönetim A.Ş. for a consideration of TL 6,450, credit card portfolio with principal amounting to TL 381,973 as of February 28, 2010 was sold to Girişim Varlık Yönetim A.Ş. for a consideration of TL 32,435 and SME loan portfolio with principal amounting to TL 224,390 as of February 28, 2010 was sold to LBT Varlık Yönetim A.Ş. for a consideration of TL 31,232. Profit on these sales before taxes and legal expenses amounted to TL 11,817. TL 181,200 of the total principal amount sold was written off in prior periods.

According to the resolution of the Board of Directors of the Bank dated May 26, 2010, portfolios composed of corporate and commercial loans followed under non-performing loan accounts are sold according to auction and confidentiality agreements. Corporate and commercial loan portfolio with principal amounting to TL 298,741 including TL 28,328 as legal and other expenses as of April 30, 2010 was sold to LBT Varlık Yönetim A.Ş. for a consideration of TL 7,518. Profit on this sale before taxes and legal expenses amounted to TL 5,020.

According to the resolution of the Board of Directors of the Bank dated November 25, 2010; portfolios composed of SME loans, consumer loans and credit cards followed under non-performing loan accounts are sold according to auction and confidentiality agreements. Consumer and SME loan portfolio amounting to TL 170,867 as of October 31, 2010 was sold to Girişim Varlık Yönetim A.Ş. and Credit cards portfolio amounting to TL 256,955 as of October 31, 2010 was sold to LBT Varlık Yönetim A.Ş. for a total consideration of TL 56,045. Profit on this sale before taxes and legal expenses amounted to TL 55,074.

Notes to the consolidated financial statements at December 31, 2010

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

9. Loans and advances to customers (continued)

The calculation of net investment in direct finance leases is as follows:

	December 31, 2010	December 31, 2009	December 31, 2008
Gross investment in direct finance leases	2,457,776	2,644,114	3,163,335
Unearned finance income	(341,839)	(412,710)	(511,495)
	2,115,937	2,231,404	2,651,840
Interest accrual on receivables	29,760	39,187	30,752
Receivables from outstanding lease payments	36,598	59,877	123,239
Provision for impaired lease receivables	(203,396)	(161,414)	(113,677)
Net investment in direct finance leases	1,978,899	2,169,054	2,692,154

Lease payments receivable consists of rentals over the terms of leases. The rentals according to maturity are as follows:

	December 31, 2010	December 31, 2009	December 31, 2008
Less than 1 year	821,382	895,583	1,214,924
More than 1 year but not later than 5 years	1,145,620	1,180,003	807,341
Later than 5 years	49,550	54,694	945,792
Less: unearned finance income	(341,839)	(412,710)	(511,495)
Investment in performing lease receivables	1,674,713	1,717,570	2,456,562

10. Investment securities**(i) Securities available-for-sale**

	December 31, 2010	December 31, 2009	December 31, 2008
Debt securities - at fair value:			
Government bonds and treasury bills	3,402,886	960,334	893,589
Eurobonds	869,249	919,003	641,995
Government bonds and treasury bills sold under repurchase agreements	212,492	-	18,639
Eurobonds sold under repurchase agreements	-	17,585	-
Other	1,374,753	105,721	258,251
Equity securities - at fair value			
Listed	240	2,060	21,892
Unlisted	22,136	24,870	20,371
Total securities available-for-sale	5,881,756	2,029,573	1,854,737
Current	259,165	584,333	471,578
Non-current	5,622,591	1,445,240	1,383,159

Notes to the consolidated financial statements at December 31, 2010

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

10. Investment securities (continued)

Government bonds, treasury bills and Eurobonds are discount and coupon securities issued by the Government of the Republic of Turkey. Other securities mainly represent A and B type open-ended mutual funds incorporated in Turkey managed by the Group and credit linked notes, cross maturity swaps and other bonds issued by foreign financial institutions.

Net losses from changes in the fair value of available-for-sale investment securities, net of tax is TL 96,447 (2009 - TL 78,855 net gains; 2008 - TL 9,431 net losses). There are no impairments recognized for available-for-sale debt securities.

The movement in available-for-sale securities at during the years is as follows:

	December 31, 2010	December 31, 2009	December 31, 2008
At January 1	2,029,573	1,854,737	1,006,044
Additions	9,624,918	17,563,113	32,149,066
Disposals / redemption	(5,900,619)	(17,467,940)	(31,338,433)
Changes in fair value	121,518	87,578	9,192
Exchange differences on monetary assets	6,366	(7,915)	28,868
At December 31	5,881,756	2,029,573	1,854,737

(ii) Securities held-to-maturity

	December 31, 2010	December 31, 2009	December 31, 2008
Debt securities - at amortized cost - listed:			
Government bonds and treasury bills	5,248,357	6,830,558	6,192,275
Eurobonds	3,992,525	4,960,654	5,718,643
Government bonds and treasury bills sold under repurchase agreements	224,251	65,815	161,622
Eurobonds sold under repurchase agreement	3,409,920	1,309,650	583,340
Foreign government bonds	99,891	152,042	49,901
Total securities held-to-maturity	12,974,944	13,318,719	12,705,781
Current	2,218,609	2,919,490	456,238
Non-current	10,756,335	10,399,229	12,249,543

The movement in held-to-maturity securities during the years is as follows:

	December 31, 2010	December 31, 2009	December 31, 2008
At January 1	13,318,719	12,705,781	13,003,287
Additions	3,020,222	2,008,035	536,931
Sales and redemptions	(3,397,712)	(1,139,115)	(2,356,693)
Exchange differences on monetary assets	33,715	(255,982)	1,522,256
At December 31	12,974,944	13,318,719	12,705,781

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

Notes to the consolidated financial statements at December 31, 2010

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

11. Investment in associate

	December 31, 2010	December 31, 2009	December 31, 2008
At January 1	58,939	55,593	38,220
Share of results	8,744	5,417	3,667
Dividends paid	(2,069)	(1,840)	(1,290)
Exchange difference	6,292	(231)	14,996
At December 31	71,906	58,939	55,593

12. Investment in joint venture valued at net equity

As at December 31, 2010, the Group has one investment in jointly controlled entity.

	December 31, 2010	December 31, 2009	December 31, 2008
At January 1	24,683	31,354	33,855
Share of results	(2,418)	(6,671)	(2,501)
At December 31	22,265	24,683	31,354

13. Goodwill

	December 31, 2010	December 31, 2009	December 31, 2008
At January 1	1,023,528	1,023,528	1,023,528
Impairment charge	-	-	-
At December 31	1,023,528	1,023,528	1,023,528

Goodwill is reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred.

Discounted cash flows methodology is employed for valuation to carry out goodwill impairment test. Discount rate is assumed to gradually decrease from 15,9% in 2011 to 12% in the long term. Terminal value is calculated with a long term growth rate of 3%.

There was no impairment identified at December 31, 2010 (2009 - None; 2008 - None).

14. Other intangible assets

	December 31, 2010	December 31, 2009	December 31, 2008
Cost	427,847	340,104	288,115
Accumulated amortization	(164,180)	(123,663)	(108,418)
Net book amount	263,667	216,441	179,697

Notes to the consolidated financial statements at December 31, 2010

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

14. Other intangible assets (continued)

Movements of other intangible assets were as follows:

December 31, 2010	Rights and licenses	Software	Trademarks and customer relationships related intangibles	Total
Cost				
At January 1	98,801	78,219	163,084	340,104
Additions	55,557	35,118	-	90,675
Disposals	(1,072)	(1,850)	-	(2,922)
Transfers	(31,416)	31,416	-	-
Translation differences	(1)	(9)	-	(10)
At December 31	121,869	142,894	163,084	427,847
Accumulated amortization				
At January 1	(21,690)	(32,664)	(69,309)	(123,663)
Amortization charge (Note 33)	(11,092)	(18,687)	(16,310)	(46,089)
Disposals	911	1,876	-	2,787
Transfers	-	-	-	-
Translation differences	-	15	-	15
(Reversal of) impairment	-	2,770	-	2,770
At December 31	(31,871)	(46,690)	(85,619)	(164,180)
Net book amount at December 31	89,998	96,204	77,465	263,667

December 31, 2009	Rights and licenses	Software	Trademarks and customer relationships related intangibles	Total
Cost				
At January 1	76,252	48,779	163,084	288,115
Additions	47,626	33,790	-	81,416
Disposals	(24,792)	(4,350)	-	(29,142)
Transfers	(285)	-	-	(285)
Translation differences	-	-	-	-
At December 31	98,801	78,219	163,084	340,104
Accumulated amortization				
At January 1	(30,396)	(25,021)	(53,001)	(108,418)
Amortization charge (Note 33)	(10,094)	(11,894)	(16,308)	(38,296)
Disposals	18,796	4,251	-	23,047
Transfers	4	-	-	4
Translation differences	-	-	-	-
At December 31	(21,690)	(32,664)	(69,309)	(123,663)
Net book amount at December 31	77,111	45,555	93,775	216,441

Notes to the consolidated financial statements at December 31, 2010

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

14. Other intangible assets (continued)

December 31, 2008	Rights and licenses	Software	Trademarks and customer relationships related intangibles	Total
Cost				
At January 1	110,275	40,049	163,084	313,408
Additions	27,072	10,044	-	37,116
Disposals	(23,357)	(4,296)	-	(27,653)
Transfers	(37,738)	2,947	-	(34,791)
Translation differences	-	35	-	35
At December 31	76,252	48,779	163,084	288,115
Accumulated amortization				
At January 1	(41,067)	(21,847)	(36,693)	(99,607)
Amortization charge (Note 33)	(16,811)	(7,458)	(16,308)	(40,577)
Disposals	23,357	4,172	-	27,529
Transfers	4,125	141	-	4,266
Translation differences	-	(29)	-	(29)
At December 31	(30,396)	(25,021)	(53,001)	(108,418)
Net book amount at December 31	45,856	23,758	110,083	179,697

The Group assigned a consultancy firm for the valuation of intangible assets determined as a credit card trademark, customer base and relationship that can be measured reliably and for which the future economic benefit is embodied in the asset. In line with the report dated February 13, 2006 the Group recognized TL 163,084 thousand of intangible assets in its consolidated financial statements.

Identified intangible assets are amortized using the straight-line method over their useful lives, which have been assessed as 10 years. As of December 31, 2010, the net book value of these intangible assets amounts to TL 77,465 (2009 - TL 93,775; 2008 - TL 110,083).

15. Property and equipment

	December 31, 2010	December 31, 2009	December 31, 2008
Cost	3,963,878	3,971,510	4,060,379
Accumulated depreciation and impairment	(2,800,798)	(2,815,327)	(2,844,791)
Net book amount	1,163,080	1,156,183	1,215,588

Notes to the consolidated financial statements at December 31, 2010

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

15. Property and equipment (continued)

December 31, 2010	Land and buildings	Office equipments	Furniture and fixtures, vehicles and other	Leasehold improvements	Total
Cost					
At January 1	2,808,133	659,475	339,977	163,925	3,971,510
Additions	24,824	62,108	23,376	33,864	144,172
Disposals	(118,950)	(15,284)	(9,926)	(7,946)	(152,106)
Transfers	538	(4,263)	3,725	-	-
Translation difference	249	10	44	(1)	302
At December 31	2,714,794	702,046	357,196	189,842	3,963,878
Accumulated depreciation and impairment					
At January 1	(1,985,788)	(499,479)	(263,674)	(66,386)	(2,815,327)
Depreciation charge (Note 33)	(43,255)	(58,536)	(12,198)	(28,678)	(142,667)
Disposals	74,724	13,402	8,391	7,709	104,226
Transfers	(129)	3,095	(2,966)	-	-
Recoveries	-	-	-	-	-
(Reversal of) impairment , net (Note 33)	51,697	-	1,245	-	52,942
Translation difference	(107)	35	(19)	119	28
At December 31	(1,902,858)	(541,483)	(269,221)	(87,236)	(2,800,798)
Net book amount at December 31	811,936	160,563	87,975	102,606	1,163,080

December 31, 2009	Land and buildings	Office equipments	Furniture and fixtures, vehicles and other	Leasehold improvements	Total
Cost					
At January 1	2,911,837	640,323	343,075	165,144	4,060,379
Additions	36,826	44,060	21,664	19,725	122,275
Disposals	(144,643)	(17,802)	(27,242)	(21,260)	(210,947)
Transfers	4,562	(7,075)	2,495	303	285
Translation difference	(449)	(31)	(15)	13	(482)
At December 31	2,808,133	659,475	339,977	163,925	3,971,510
Accumulated depreciation and impairment					
At January 1	(2,052,332)	(463,840)	(270,825)	(57,794)	(2,844,791)
Depreciation charge (Note 33)	(46,023)	(56,268)	(14,270)	(29,068)	(145,629)
Disposals	109,338	17,258	23,982	20,493	171,071
Transfers	(793)	3,345	(2,552)	(4)	(4)
Recoveries	-	-	-	-	-
(Reversal of) impairment , net (Note 33)	3,888	-	-	-	3,888
Translation difference	134	26	(9)	(13)	138
At December 31	(1,985,788)	(499,479)	(263,674)	(66,386)	(2,815,327)
Net book amount at December 31	822,345	159,996	76,303	97,539	1,156,183

Notes to the consolidated financial statements at December 31, 2010

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

15. Property and equipment (continued)

December 31, 2008	Land and buildings	Office equipments	Furniture and fixtures, vehicles and other	Leasehold improvements	Total
Cost					
At January 1	3,008,795	587,197	308,021	76,034	3,980,047
Additions	862	65,931	56,904	66,270	189,967
Disposals	(98,890)	(11,474)	(24,091)	(12,886)	(147,341)
Transfers	-	(2,169)	2,028	34,932	34,791
Translation difference	1,070	838	213	794	2,915
At December 31	2,911,837	640,323	343,075	165,144	4,060,379
Accumulated depreciation and impairment					
At January 1	(2,093,780)	(434,410)	(255,013)	(48,113)	(2,831,316)
Depreciation charge (Note 33)	(47,355)	(41,551)	(20,834)	(16,499)	(126,239)
Disposals	54,143	10,590	7,158	11,832	83,723
Transfers	-	2,169	(2,028)	(4,407)	(4,266)
Recoveries	36,826	-	-	-	36,826
(Reversal of) impairment , net (Note 33)	(1,841)	-	-	-	(1,841)
Translation difference	(325)	(638)	(108)	(607)	(1,678)
At December 31	(2,052,332)	(463,840)	(270,825)	(57,794)	(2,844,791)
Net book amount at December 31	859,505	176,483	72,250	107,350	1,215,588

At December 31, 2010, total impairment provision on property and equipment of the Parent Bank amounts to TL 572,699 (2009 - TL 627,377; 2008 - TL 631,265).

16. Other assets

	December 31, 2010	December 31, 2009	December 31, 2008
Collaterals given	497,601	215,881	130,584
Gold stocks	249,772	188,796	74,524
Due from insurance policyholders	194,680	157,394	158,656
Prepaid expenses	124,094	132,298	167,845
Reposessed assets, net	88,020	97,048	95,149
Payments for credit card settlements	67,831	65,113	44,082
Advances given	67,382	17,689	26,155
Accounts receivable	80,379	6,776	17,165
Other	244,136	268,892	275,344
	1,613,895	1,149,887	989,504
Current	1,508,558	897,070	794,218
Non-current	105,337	252,817	195,286

Notes to the consolidated financial statements at December 31, 2010

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

16. Other assets (continued)

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

	December 31, 2010	December 31, 2009	December 31, 2008
Cost			
At January 1	112,202	117,605	128,938
Additions	58,076	16,656	59,620
Disposals	(68,993)	(22,059)	(70,953)
Other	-	-	-
At December 31	101,285	112,202	117,605
Impairment			
At January 1	(15,154)	(22,456)	(60,854)
Impairment charge for the year, net (Note 33)	-	-	(522)
Disposals	1,889	7,302	38,920
Other	-	-	-
At December 31	(13,265)	(15,154)	(22,456)
Net book amount at December 31	88,020	97,048	95,149

17. Deposits from banks

	December 31, 2010			December 31, 2009			December 31, 2008		
	Demand	Term	Total	Demand	Term	Total	Demand	Term	Total
Foreign currency:									
Domestic banks	3,567	467,915	471,482	135,245	160,824	296,069	94,482	116	94,598
Foreign banks	30,770	743,408	774,178	8,166	599,628	607,794	25,452	127,603	153,055
Funds deposited under repurchase agreements	-	3,151,593	3,151,593	-	1,108,581	1,108,581	-	624,978	624,978
	34,337	4,362,916	4,397,253	143,411	1,869,033	2,012,444	119,934	752,697	872,631
TL:									
Domestic banks	65,954	92,353	158,307	56,574	9,321	65,895	91,710	49,674	141,384
Foreign banks	92,732	287,178	379,910	76,904	276,936	353,840	20,995	47,831	68,826
	158,686	379,531	538,217	133,478	286,257	419,735	112,705	97,505	210,210
	193,023	4,742,447	4,935,470	276,889	2,155,290	2,432,179	232,639	850,202	1,082,841
Current	193,023	4,169,376	4,362,399	276,889	2,155,290	2,432,179	232,639	850,202	1,082,841
Non-current	-	573,071	573,071	-	-	-	-	-	-

Notes to the consolidated financial statements at December 31, 2010

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

18. Customer deposits

	December 31, 2010			December 31, 2009			December 31, 2008		
	Demand	Term	Total	Demand	Term	Total	Demand	Term	Total
Foreign currency deposits:									
Saving deposits	1,967,201	7,541,958	9,509,159	2,076,935	8,229,426	10,306,361	1,754,634	8,420,204	10,174,838
Commercial deposits	2,785,429	9,405,581	12,191,010	2,208,694	6,723,689	8,932,383	1,801,831	7,015,821	8,817,652
Public sector deposits	-	-	-	-	-	-	3,338	-	3,338
	4,752,630	16,947,539	21,700,169	4,285,629	14,953,115	19,238,744	3,559,803	15,436,025	18,995,828
TL deposits:									
Saving deposits	1,812,758	15,843,209	17,655,967	1,440,267	13,946,703	15,386,970	1,044,092	14,787,777	15,831,869
Commercial deposits	2,439,527	11,230,187	13,669,714	1,747,739	5,344,243	7,091,982	1,203,785	7,119,835	8,323,620
Funds deposited under repurchase agreements	-	67,825	67,825	-	130,100	130,100	-	160,449	160,449
Public sector deposits	320,896	76,379	397,275	278,166	55,424	333,590	250,889	163,192	414,081
	4,573,181	27,217,600	31,790,781	3,466,172	19,476,470	22,942,642	2,498,766	22,231,253	24,730,019
	9,325,811	44,165,139	53,490,950	7,751,801	34,429,585	42,181,386	6,058,569	37,667,278	43,725,847
Current	9,325,811	43,767,691	53,093,502	7,751,801	33,739,320	41,491,121	6,058,569	37,115,099	43,173,668
Non-current	-	397,448	397,448	-	690,265	690,265	-	552,179	552,179

19. Funds borrowed

	December 31, 2010	December 31, 2009	December 31, 2008
Foreign institutions and banks			
Syndication loans	3,385,043	2,070,306	1,479,804
Subordinated debt	2,110,274	2,224,023	2,220,601
Other	5,248,988	3,212,281	4,800,994
Total foreign	10,744,305	7,506,610	8,501,399
Domestic banks	1,439,039	1,077,640	883,428
Interbank money market	431,598	46,886	267,611
Total domestic	1,870,637	1,124,526	1,151,039
	12,614,942	8,631,136	9,652,438
Current	7,761,132	5,012,536	5,701,524
Non-current	4,853,810	3,618,600	3,950,914

Funds borrowed from foreign institutions include a syndicated credit facility, in the amount of; USD 324 million (equivalent of TL 489 million) with total cost of Libor+1,5% and EUR 516 million (equivalent of TL 1,034 million) with total cost of Euribor+1,5%. The facility is provided by 51 banks from 19 countries, consisting of 2 credit tranches with 1 year maturity. The agreement was signed on April 21, 2010.

On October 5, 2010, the Bank obtained its second syndication loan of the year amounting USD 1,250 million from international banks from 22 countries, 48 banks, comprising of 2 credit tranches with 1 year maturity; one tranche amounting to USD 342,5 million (equivalent of TL 518 million) with total cost of Libor+1,3% and the other tranche amounting to EUR 670 million (equivalent of TL 1,344 million) with total cost of Euribor+1,3%. The agreement was signed on September 29, 2010. The club loan facility is a replacement of USD985 million of syndication loan that was signed in September 2009.

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19. Funds borrowed (continued)

At March 30, 2006, YKB obtained a subordinated loan amounting to EUR500 million, with ten years maturity and a repayment option at the end of five years. The interest rate is determined as Euribor+2% for the first five years. The loan was obtained from Merrill Lynch Capital Corporation with UniCredito Italiano S.p.A. as guarantor. In addition, the subordinated loan obtained by Koçbank at April 28, 2006 amounting to EUR350 million, with ten years maturity and repayment option at the end of five years has been transferred to YKB. The interest rate is determined as Euribor+2.25% for the first five years. The loan was obtained from Goldman Sachs International Bank with UniCredito Italiano S.p.A. as guarantor. In addition, the Bank obtained a subordinated loan on June 25, 2007 amounting to EUR200 million, with ten years maturity and repayment option at the end of five years. The interest rate is determined as Euribor+1.85% for the first five years. The loan was obtained from Citibank, N.A., London Branch with UniCredito Italiano S.p.A as guarantor. With the written approvals of the BRSA dated April 3, 2006, May 2, 2006 and June 19, 2007, the loans have been approved as subordinated loans and can be taken into consideration as supplementary capital within the limits of "Capital Adequacy Regulation".

Funds borrowed from domestic banks include funds obtained from Industrial Development Bank of Turkey ("TSKB") in context of Export Finance Intermediation Loan ("EFIL") sourced by World Bank (IBRD) to finance certain export loans provided to customers in line with the prevailing regulations.

On October 11, 2010 the Parent Bank signed a loan agreement with UniCredit Luxembourg S.A. for a long-term borrowing of USD750 million, lead managed by UniCredit Bank AG, Citibank Global Markets Limited and Deutsche Bank AG London Branch. The transaction was twice oversubscribed with the participation of 100 investors from 18 countries. The transaction was priced at the tighter end of the pricing guidance and at a yield of 5.1875%. The loan has a maturity for 5 years with semi-annual interest payments and a bullet principal payment at maturity.

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20. Debt securities in issue

The details of the Group's diversified payment rights securitization transactions are as follows:

	Average interest rate					
	(%) ⁽¹⁾					
	2010	2009	2008	2010	2009	2008
USD175,000,000 Series 2006-A Floating Rate Notes Due 2014	211,335	257,266	258,967	0.53	0.51	2.42
USD200,000,000 Series 2006-B Floating Rate Notes Due 2014	60,261	294,019	295,962	0.50	0.48	2.39
USD114,000,000 Series 2006-C Floating Rate Notes Due 2013	117,728	167,569	170,155	0.63	0.61	2.52
€279,846,000 Series 2006-D Floating Rate Notes Due 2014	84,223	590,539	629,848	1.26	0.93	4.34
€67,215,000 Series 2007-A Floating Rate Notes Due 2015	47,673	141,833	241,430	1.22	0.89	4.30
USD199,000,000 of Series 2007-B Floating Rate Notes Due 2015	101,361	292,534	369,936	0.47	0.45	2.36
USD112,080,000 of Series 2010-A Floating Rate Notes Due 2015	169,111	-	-	0.92	-	-
USD7,500,000 of Series 2010-B Floating Rate Notes Due 2015	11,316	-	-	0.92	-	-
€179,440,811 of Series 2010-C Floating Rate Notes Due 2015	359,154	-	-	1.68	-	-
€29,659,900 of Series 2010-D Floating Rate Notes Due 2015	59,362	-	-	1.64	-	-
USD102,000,000 of Series 2010-E Floating Rate Notes Due 2015	153,895	-	-	0.88	-	-
Other	19,485	718	-	-	-	-
	1,394,904	1,744,478	1,966,298			
Current	348,969	337,673	9,053			
Non-current	1,045,935	1,406,805	1,957,245			
	1,394,904	1,744,478	1,966,298			

(1) The premium rates paid to monoline companies are excluded from the interest rates.

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20. Debt securities in issue (continued)

The offered notes under the securitization program are issued by Yapı Kredi Diversified Payment Rights Finance Company "SPC", an exempted limited liability company incorporated under the laws of the Cayman Islands. YKB acts as the originator of the diversified payment rights "DPR" and as the servicer. There were 4 tranches, which were insured by the monoline companies namely, Assured Guaranty Corporation, MBIA Insurance Corporation, Radian Asset Assurance Inc, and Ambac Assurance Corporation. The offered notes were offered for sale outside the United States in reliance upon Regulation S under the Securities Act. The Series 2006-D Notes are listed on the Luxembourg Stock Exchange. On the issuance date for the offered notes as of December 14, 2006, the SPC also entered into a private placement of USD 310,000,000 of Series 2006-E Floating Rate Notes due 2011, which is a Senior Series and thus rank pari passu with the offered notes.

YKB has repaid USD310 million of the credit as of March 1, 2007 and refinanced it with a USD 400 million of DPR transaction. The additional issuance was composed of two tranches one for EUR115 million and one for USD250 million, insured by Financial Guaranty Insurance Company (FGIC) and XL Capital Assurance Incorporation respectively.

Regarding the Bank's existing DPR securitization programme which comprises 2006 and 2007 issues guaranteed by above mentioned monoline companies, the Bank had announced the mandate of Standard Bank Plc and UniCredit Bank AG London Branch for an exchange offer of these monoline wrapped notes with unwrapped notes on May 26, 2010.

On August 26, 2010, the exchange offer was finalized with the participation of 23 investors.

As a result of the finalization of the offer, investors were able to exchange USD600 million of original monoline wrapped notes (volume at face value, USD equivalent) with unwrapped notes having the same maturity profile whilst benefiting from a higher coupon.

21. Financial liabilities designated at fair value

	December 31, 2010	December 31, 2009	December 31, 2008
Financial liabilities designated at fair value	-	-	66,434

Certain fixed rate borrowed funds have been matched with cross currency swaps as part of a documented currency risk management strategy. An accounting mismatch would arise if the borrowed funds were accounted for at amortized cost, because the related derivatives are measured at fair value with movements in the fair value taken through the income statement. By designating the long-term debt at fair value, the movement in the fair value of the long-term debt is recorded in the income statement. There is no contractual undiscounted amount that will be required to be paid at maturity of the above debt (2009 - None; 2008 - TL 67,032). There were no gains or losses attributable to changes in the credit risk for those financial liabilities designated at fair value as of December 31, 2010 (2009 - None; 2008 - None).

22. Taxation

	December 31, 2010	December 31, 2009	December 31, 2008
Current tax expense	(557,370)	(480,911)	(255,320)
Deferred tax income / (expense)	(5,781)	174,965	(61,096)
	(563,151)	(305,946)	(316,416)

Notes to the consolidated financial statements at December 31, 2010

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

22. Taxation (continued)

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

Through the enactment of Corporate Tax Law No.5520 ("New Corporate Tax Law") published in the Official Gazette No.26205 dated June 21, 2006, corporation tax is payable at the rate of 20% effective from January 1, 2006 on the total income of the entities in Turkey after adjusting for certain disallowable expenses, exempt income and investment and other allowances. No further tax is payable unless the profit is distributed.

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%.

Corporations are required to pay advance corporate tax quarterly at a rate of 20% on their corporate income. Advance tax is declared by the 14th and paid by the 17th day of the second month following each calendar quarter end. Advance tax paid by corporations for the current period is credited against the annual corporation tax calculated on the annual corporate income in the following year. Despite the offset, if there is temporary prepaid tax remaining, this balance can be refunded or used to offset any other financial liabilities to the government.

75% portion of the capital gains derived from the sale of equity investments and immovable properties held for at least two years is tax exempt, if such gains are added to paid-in capital or kept in a special fund for 5 years in accordance with the New Corporate Tax Law.

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

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Corporations file their tax returns within the 25th of the fourth month following the close of the financial year to which they relate. Tax returns are open for 5 years from the beginning of the year that follows the date of filing during which the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and if they find any corrections then the tax amount to be paid might be changed as well.

Under the investment allowance regime applicable as of December 31, 2005, capital expenditures, with some exceptions, over TL10 thousand are eligible for investment incentive allowance of 40% and exempted from corporate income tax and this allowance is not subject to withholding tax without the requirement of an investment incentive certificate. Investment allowances calculated are deferred to the following years in cases where corporate income is insufficient. Investment allowances utilized within the scope of investment incentive certificates granted prior to April 24, 2003 in accordance with provisions of Income Tax Law Temporary Article 61 are subject to withholding tax at the rate of 19.8%, irrespective of profit distribution.

As of January 1, 2006, the investment allowance regime has been abolished with Corporate Income Tax Law No.5479.

Notes to the consolidated financial statements at December 31, 2010

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

22. Taxation (continued)

Under the temporary article 69 of Income Tax Law, a transition period of three years has been provided for income and corporate taxpayers which have investment incentive allowance rights as of December 31, 2005, which have not yet utilized and which have been deferred to the following years where corporate income may be insufficient and where investment allowance will be earned from the investment expenditures made for the ongoing projects as of December 31, 2005. According to this, investment allowances which are calculated in accordance with temporary article 61 and article no: 19 of the Income Tax Law can be utilized for the income generated in the years 2006, 2007 and 2008 in accordance with the articles valid on December 31, 2005. Therefore the applicable corporate tax rate is 30% in case of benefiting from investment allowances. Tax payers have to inform the relevant tax office until the submission date of the first quarter advance tax return that they opt to utilize investment allowance in accordance with the Circular numbered KVK-3 /2006-3 /Investment Allowance 2 issued by Ministry of Finance. The choice of benefiting from investment allowance can not be changed in the annual tax return term.

Apart from the above mentioned exemptions considered in the determination of the corporate income tax base, allowances stated in Corporate Income Tax Law Article 8, 9 and 10, and Income Tax Law Article 40 are also taken into consideration.

According to the Constitutional Court meeting held on October 15, 2009, abolishment of the investment allowance application has been cancelled with the claim of being unconstitutional by Constitutional Court. This decision is published in the Official Gazette dated January 8, 2010.

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

	December 31, 2010	December 31, 2009	December 31, 2008
Profit before income taxes	2,798,885	1,898,014	1,686,384
Theoretical income tax at the applicable tax rate of 20%	559,777	379,603	337,277
Effect of different tax rates in other countries	5,308	2,381	2,178
Non-taxable consolidation adjustments	(652)	588	(264)
Tax effect of items which are not deductible or assessable for taxation purposes:			
- Income exempt from taxation	(21,408)	(19,765)	(22,444)
- Non-deductible expenses for tax purposes	27,602	13,435	25,549
Utilization of investment incentive	(7,463)	(70,840)	(25,563)
Utilized tax loss carry forward	-	591	-
Other	(13)	(47)	(317)
Income tax expense	563,151	305,946	316,416

Notes to the consolidated financial statements at December 31, 2010

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

22. Taxation (continued)**Deferred income taxes**

For all domestic subsidiaries and the Parent Bank, deferred income taxes are calculated on temporary differences that are expected to be realized or settled under the liability method using a principal tax rate of 20% at December 31, 2010 (2009 - 20%; 2008 -20%).

For foreign subsidiaries deferred income taxes are calculated on all temporary differences under the liability method using the principal tax rates at December 31, 2010, 2009 and 2008 which are as follows:

Country of incorporation	Tax rate (%)		
	December 31, 2010	December 31, 2009	December 31, 2008
Russia	20.00	20.00	24.00
Netherlands	25.50	25.50	25.50
Azerbaijan	20.00	20.00	22.00

The deferred income tax assets and liabilities represent the tax effect of temporary differences arising due to the different treatment of certain items of income and expenses included in the financial statements compared to the local tax return in accordance with the applicable tax law plus any available tax loss carried forward from previous years.

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

	Cumulative Temporary Differences				Deferred Tax Asset/Liability	
	December 31, 2010	December 31, 2009	December 31, 2008	December 31, 2010	December 31, 2009	December 31, 2008
Impairment on assets	709,041	764,446	775,436	75,221	86,013	88,210
Allowance for loan impairment	966,336	1,004,005	712,361	192,730	200,597	142,540
Pension benefits transferable to the Social Security Institution ("SSI") (Note 24)	838,036	864,059	774,366	167,607	172,812	154,873
Reserve for employment termination benefits (Note 24)	101,700	100,482	94,889	20,486	20,200	19,058
Revaluation of derivative instruments at fair value	812,831	612,151	220,782	158,262	122,429	43,577
Valuation differences on investment securities	29,367	37,755	36,571	5,883	7,561	7,314
Other	863,813	808,169	269,736	174,434	161,472	54,278
Deferred income tax assets	4,321,124	4,191,067	2,884,141	794,623	771,084	509,850
Difference between carrying value and tax base of property and equipment	944,583	953,649	984,944	97,174	98,968	105,199
Valuation differences on investment securities	130,270	2,843	2,329	25,704	306	117
Revaluation of derivative instruments at fair value	956,156	884,086	433,651	186,416	174,320	84,769
Assets capitalised under finance leases	-	8,088	8,294	-	1,618	1,659
Other	53,253	66,784	57,686	11,272	13,082	10,178
Deferred income tax liabilities	2,084,262	1,915,450	1,486,904	320,566	288,294	201,922
Deferred income tax assets, net	2,236,862	2,275,617	1,397,237	474,057	482,790	307,928

Notes to the consolidated financial statements at December 31, 2010

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

22. Taxation (continued)

The movements of net deferred income taxes during the years were as follows:

	December 31, 2010	December 31, 2009	December 31, 2008
Balance at January 1	482,790	307,928	359,800
Charge for the year, net	(5,781)	174,965	(61,096)
Available-for-sale revaluation reserve	(24,054)	370	(4,006)
Net investment hedge	(3,897)	588	14,360
Cash flow hedge	25,457	-	-
Translation difference	(458)	(1,061)	(1,130)
Balance at December 31	474,057	482,790	307,928

There are no deductible temporary differences for which no deferred tax asset is recognized in the statement of financial position (2009: None; 2008 - None).

Income tax effects relating to components of other comprehensive income

	December 31, 2010			December 31, 2009			December 31, 2008		
	Before tax amount	Tax (expense) benefit	Net-of tax amount	Before tax amount	Tax (expense) benefit	Net-of tax amount	Before tax amount	Tax (expense) benefit	Net-of tax amount
Foreign currency translation differences	(7,886)	-	(7,886)	256	-	256	103,970	-	103,970
Fair value gains on available-for-sale financial assets (including translation difference)	120,959	(24,512)	96,447	79,546	(691)	78,855	(4,295)	(5,136)	(9,431)
Net investment hedge	19,484	(3,897)	15,587	(2,941)	588	(2,353)	(71,800)	14,360	(57,440)
Cash flow hedge	(127,285)	25,457	(101,828)	-	-	-	-	-	-
Other comprehensive income for the year (net presentation)	5,272	(2,952)	2,320	76,861	(103)	76,758	27,875	9,224	37,099

23. Other provisions

	December 31, 2010	December 31, 2009	December 31, 2008
Provision for losses on credit related commitments	189,660	181,953	173,698
Tax and other legal provisions	124,712	96,616	63,775
Provisions on credit cards and promotion campaigns	39,697	48,469	56,674
Provision on export commitment estimated liability	39,486	38,261	40,495
Other	63,630	32,572	42,593
	457,185	397,871	377,235
Current	52,722	14,624	-
Non-current	404,463	383,247	377,235

Notes to the consolidated financial statements at December 31, 2010

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

23. Other provisions (continued)**Credit related commitments provision**

The Group management has estimated losses that may arise from credit related commitments and has recognized a provision of TL 189,660 (2009 - TL 181,953; 2008 - TL 173,698).

Tax and other legal provisions

At December 31, 2010, the Group is involved in number of legal disputes. The Group's lawyers advise that, owing to developments in some of these cases, it is probable that the Group will be found liable. Therefore, the management has recognized a provision of TL 35,886 (2009 - TL 26,668; 2008 - TL 22,927) as the best estimate of the amount to settle these potential obligations.

The Group also recorded total provision of TL 88,826 (2009 - TL 69,948; 2008 - TL 40,848) against potential tax risks in the form of possible tax duties and penalties in the consolidated financial statements for the year ended December 31, 2010.

Export commitment provision

The Group management has estimated losses that may arise from export loans to customers under legal follow-up that do not have the ability to fulfill their export commitments and has recognized provision of TL 39,486 (2009 - TL 38,261; 2008 - TL 40,495).

Provision for credit related commitments

Movement in provision for losses on credit related commitments is as follows:

Movement in other provisions is as follows:

	Provision for credit related commitments	Tax and other legal provisions	Provisions on credit cards and promotion campaigns	Export commitment provisions	Other	December 31, 2010 Total	December 31, 2009 Total	December 31, 2008 Total
At January 1	181,953	96,616	48,469	38,261	32,572	397,871	377,235	301,149
Provision charged	7,929	29,623	115,444	1,225	42,690	196,911	193,705	294,941
Provision used	-	(1,527)	(124,216)	-	(11,387)	(137,130)	(174,615)	(218,965)
Translation difference	(222)	-	-	-	(245)	(467)	1,546	110
Balance at December 31	189,660	124,712	39,697	39,486	63,630	457,185	397,871	377,235

Notes to the consolidated financial statements at December 31, 2010

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

24. Retirement benefit obligations

	December 31, 2010	December 31, 2009	December 31, 2008
Statement of financial position obligations for:			
- Post employment benefits (pension and medical) transferable to SSI	838,036	864,059	774,366
- Reserve for employment termination benefits	101,700	100,482	94,889
	939,736	964,541	869,255
Income statement charge for:			
- Post employment benefits (pension and medical) transferable to SSI	26,023	(89,693)	(68,366)
- Reserve for employment termination benefits	(19,705)	(20,609)	(15,308)
	6,318	(110,302)	(83,674)

Income statement charge for retirement benefit obligations has been recognized as a separate line item in the income statement for the years ended December 31, 2010, 2009 and 2008.

The cash payments to the Fund by the Group which represent the employers contribution during the year amounting to TL 107,517 (2009 - TL 97,241; 2008 - TL 88,796) has been included staff cost expenses under operating expenses (Note 33). Total expenses on post employment benefits are amounting to TL 81,494 (2009 - TL 186,934; 2008 - TL 157,162).

(i) Post employment benefits (pension and medical) transferable to SSI

YKB personnel are members of the Fund which was established in accordance with the 20th temporary article of Social Security Law numbered 506 ("the Social Security Law"). The Banking Law which was enacted on November 1, 2005, included a provision requiring the transfer of pension funds of the banks, including the Fund, to the SSI within three years following the publication of the Banking Law. In accordance with the Banking Law, the actuarial calculation of the liability (if any) on the transfer should be performed by taking into account the procedures and other parameters determined by the commission established by Ministry of Labour and Social Security. Accordingly, the Group calculated the pension benefits transferable to SSI in accordance with the Decree published by the Council of Ministers in the Official Gazette dated December 15, 2006 No.26377 ("the 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 on November 2, 2005 the President initiated a lawsuit before the Turkish Constitutional Court in order to rescind the Article.

On March 22, 2007, the Turkish Constitutional Court reached a verdict with regards to the suspension of the execution of the first paragraph of provisional article 23 of the Banking Law, which requires the transfer of the Pension Fund to the SSI, until the decision regarding the cancellation thereof is published in the Official Gazette. The New Law was published in the Official Gazette dated May 8, 2008, numbered 26870 and came into force. In accordance with the New Law, members of the funds established in accordance with the Social Security Law should be transferred to SSI within 3 years following enactment.

Notes to the consolidated financial statements at December 31, 2010

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

24. Retirement benefit obligations (continued)

The Main Opposition Party has applied to the Constitutional Court at June 19, 2008 for cancellation of some articles and requested them to be ineffective until the case of abrogation is finalized. As of the date of the publication of the financial statements, there is no decision of the Constitutional Court announced regarding the court case of abrogation.

The Group obtained an actuarial report from a registered actuary regarding this Fund in accordance with the New Law related to principles and procedures on determining the application of transfer transactions. The actuarial statement of financial position of the Fund has been prepared in accordance with a technical interest rate of 9.80% and CSO 1980 mortality table and reflects a technical deficit of TL 838,036 on December 31, 2010 (2009 - TL 864,059; 2008: TL 774,366).

The Group's obligation in respect of the post employment pension and medical benefits transferable to SSI has been determined as the value of the payment that would need to be made to SSI to settle the obligation at the statement of financial position date in accordance with the related article of the New Law and other related laws and regulations. The pension disclosures set out below therefore reflect the actuarial parameters and results in accordance with the New Law provisions.

The amounts recognized in the statement of financial position are determined as follows:

	December 31, 2010	December 31, 2009	December 31, 2008
Present value of funded obligations	1,279,565	1,239,133	1,063,181
- <i>Pension benefits transferable to SSI</i>	1,183,532	1,077,965	1,036,138
- <i>Post-employment medical benefits transferable to SSI</i>	96,033	161,168	27,043
Fair value of plan assets	(441,529)	(375,074)	(288,815)
Liability in the statement of financial position	838,036	864,059	774,366

The movement in the defined benefit obligation over the years is as follows:

	Defined benefit pension plans			Post-employment medical benefits		
	December 31, 2010	December 31, 2009	December 31, 2008	December 31, 2010	December 31, 2009	December 31, 2008
At January 1	1,077,965	1,036,138	904,367	161,168	27,043	30,999
Current service cost	64,109	57,983	54,336	43,408	39,259	34,460
Interest cost	105,640	101,542	88,628	15,794	2,650	3,038
Contributions by plan participants	54,396	49,197	46,104	28,939	26,165	24,306
Actuarial losses/(gains)	1,917	(60,457)	37,687	(122,777)	97,741	(33,955)
Benefits paid	(120,495)	(106,438)	(94,984)	(30,499)	(31,690)	(31,805)
At December 31	1,183,532	1,077,965	1,036,138	96,033	161,168	27,043

Notes to the consolidated financial statements at December 31, 2010

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

24. Retirement benefit obligations (continued)

The principal actuarial assumptions used were as follows:

	December 31, 2010	December 31, 2009	December 31, 2008
	(%)	(%)	(%)
Discount rate			
- Pension benefits transferable to SSI	9.80	9.80	9.80
- Post-employment medical benefits transferable to SSI	9.80	9.80	9.80

The effects of a 1% movement in the assumed medical cost trend rate were as follows:

	Increase/ decrease
Effect on the aggregate of the current service cost and interest cost	158
Effect on the defined benefit obligation	7,006

Mortality rate

The average life expectancy in years of a pensioner retiring at age 64 for men, 63 for women on the statement of financial position date is as follows:

	December 31, 2010	December 31, 2009	December 31, 2008
Male	15	15	15
Female	19	19	19

The movement in the fair value of plan assets of the year is as follows:

	December 31, 2010	December 31, 2009	December 31, 2008
At January 1	375,074	288,815	229,366
Actual return on plan assets	68,445	85,517	53,993
Employer contributions	64,109	57,983	54,336
Employee contributions	54,396	49,197	46,104
Benefits paid	(120,495)	(106,438)	(94,984)
At December 31	441,529	375,074	288,815

Plan assets are as follows:

	December 31, 2010	December 31, 2009	December 31, 2008
Government bonds and treasury bills	154,902 35%	180,520 48%	144,207 50%
Property and equipment	116,393 27%	113,826 30%	94,596 33%
Bank placements	133,432 30%	29,328 8%	17,240 6%
Short term receivables	19,493 4%	26,907 7%	7,662 3%
Other	17,309 4%	24,493 7%	25,110 8%
	441,529 100%	375,074 100%	288,815 100%

Notes to the consolidated financial statements at December 31, 2010

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

24. Retirement benefit obligations (continued)

The fair value of the property occupied by the Group is TL 45,600 (2009 - TL 44,604; 2008 - TL 36,114).

Expected contributions to post-employment benefit plans for the year ending December 31, 2011 are TL 236,380.

(ii) Reserve for employment termination benefits

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

	December 31, 2010	December 31, 2009	December 31, 2008
Balance at January 1	100,482	94,889	96,626
Interest costs	5,949	5,617	5,543
Actuarial gains and losses	9,379	6,554	7,466
Annual charge	4,377	8,438	2,299
Paid during the year	(18,385)	(15,031)	(17,238)
Translation difference	(102)	15	193
Balance at December 31	101,700	100,482	94,889

The total of interest cost, actuarial gains and losses and annual charge for the year amounting to TL 19,705 (2009 - TL 20,609; 2008 - TL 15,308) were included in provision for retirement benefit obligations.

Under the Turkish Labour Law, the Parent and its domestic subsidiaries are required to pay termination benefits to each employee who has completed at least one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement age (63 for women and 64 for men). Since the legislation was changed on September 8, 1999, there are certain transitional provisions relating to length of service prior to retirement. The amount payable consists of one month's salary limited to a maximum of TL 2,623.23-full (January 1, 2010: TL 2,427.04-full) for each year of service.

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

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

Notes to the consolidated financial statements at December 31, 2010

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

24. Retirement benefit obligations (continued)

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

	December 31, 2010	December 31, 2009	December 31, 2008
Discount rate (%)	4.66	5.92	6.26
The probability of retirement (%)	94.71	94.78	95.53

Additionally, the principal actuarial assumption is that the maximum liability of TL 2,623.23-full for each year of service would increase in line with inflation. Thus the discount rate applied represents the expected real rate after adjusting for the effects of future inflation. As the maximum liability is revised semi-annually, the maximum amount of TL 2,623.23-full (January 1, 2010: TL 2,427.04-full January 1, 2009: TL 2,260.05-full) which is effective from January 1, 2011, has been taken into consideration in calculating the reserve for employee benefits of the Parent and its domestic subsidiaries.

Notes to the consolidated financial statements at December 31, 2010

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25. Insurance business

	December 31, 2010	December 31, 2009	December 31, 2008
Mathematical reserve	278,586	514,133	315,123
Unearned premium reserve	280,511	217,717	208,531
Outstanding claim reserve	94,191	95,057	67,387
Profit share reserve	250,472	23,325	228,222
Insurance IBNR reserve	26,947	16,572	15,937
Total	930,707	866,804	835,200

Insurance liabilities and reinsurance assets**Gross insurance liabilities**

Life mathematical reserves	529,058	537,458	543,344
Reserve for unearned premiums	336,776	272,726	269,495
Claims provision	195,420	161,260	133,065
Total	1,061,254	971,444	945,904

Recoverable from reinsurers

Reserve for unearned premiums	(56,265)	(55,009)	(60,963)
Claims provision	(74,282)	(49,631)	(49,741)
Total	(130,547)	(104,640)	(110,704)

Net insurance liabilities

Life mathematical reserves	529,058	537,458	543,344
Reserve for unearned premiums	280,511	217,717	208,532
Claims provision	121,138	111,629	83,324
Total	930,707	866,804	835,200

Income from insurance business during the years ended were as follows;

	December 31, 2010	December 31, 2009	December 31, 2008
Earned premiums, net of reinsurance	658,363	533,275	426,178
Claims incurred, net of reinsurance	(542,602)	(524,225)	(463,855)
Commissions, net	(6,275)	(4,117)	(5,011)
Other income/(expense), net	6,679	17,599	122,913
Income from insurance business	116,165	22,532	80,225

Notes to the consolidated financial statements at December 31, 2010

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

26. Other liabilities

	December 31, 2010	December 31, 2009	December 31, 2008
Credit card payables	2,983,071	2,231,562	2,053,187
Miscellaneous payables to customers	354,188	431,387	212,031
Blocked accounts	541,378	277,609	271,402
Clearing accounts	278,067	185,972	174,087
Premium and bonuses payable to personnel	83,414	130,672	145,594
Taxes other than on income and withholdings	145,464	111,371	184,704
Provision for unused annual vacation	80,580	65,720	59,205
Import deposit and transfer orders	50,174	58,188	265,334
Unearned income	49,354	39,037	58,061
Advances taken	27,764	24,921	10,884
Saving Deposits Insurance Fund payable	17,004	15,550	15,490
Other	554,628	544,066	397,709
Total	5,165,086	4,116,055	3,847,688
Current	5,139,630	4,105,787	3,693,136
Non-current	25,456	10,268	154,552

27. Acquisitions and mergers**(i) Mergers, transfers and acquisitions in the year 2010**

According to the resolution of the Board of Directors of the Bank dated March 15, 2010, the Bank's shares in UniCredit Menkul Değerler A.Ş. ("UCM") included in the available for sale securities portfolio (TL 3,148 nominal, 10,73% of the capital) have been sold to Koç Finansal Hizmetler A.Ş. as of July 9, 2010 for a consideration of TL 8,548.

(ii) Mergers, transfers and acquisitions in the year 2009

As a result of the Extraordinary General Assembly Meetings, dated June 30, 2009, of Yapı Kredi Yatırım Menkul Değerler A.Ş., ("Yapı Kredi Menkul") and of UCM it has been decided that Yapı Kredi Menkul's intermediary activities function, which serves corporate clients, was added to UCM's capital as capital in-kind through a partial spin-off over its book values at December 31, 2008. As a result of this operation, the share of YKB in Yapı Kredi Menkul's capital did not change. According to the spin-off agreement, the Bank has acquired a share in UCM's share capital (10.73%). The fair value of this business line was TL 1,432 thousand and classified as share certificates under available for sale portfolio.

(iii) Mergers, transfers and acquisitions in the year 2008

Nominal share capital amount of TL34,897,132.53 (35.28% of the capital), owned by KFS in Yapı Kredi Menkul have been purchased by YKB in return for USD158,754,689.63 and the cost of the share purchase has been paid to KFS as TL188,617 thousand converted with the CBRT USD exchange rate at February 15, 2008.

Besides, the nominal share capital amount of EUR32,672,880.00 (67.24% of the capital), owned by KFS in Yapı Kredi Bank Nederland N.V. has been purchased by YKB in return for EUR97,502,661.71 and the cost of the share purchase has been paid to KFS as TL165,062 thousand converted with the CBRT EUR exchange buying rate at 1January 1, 2008.

Notes to the consolidated financial statements at December 31, 2010

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

27. Acquisitions and mergers (continued)

Since the transactions mentioned above are considered as transactions with minorities the difference between the purchase cost and the net assets acquired is disclosed under "Retained earnings" line of consolidated statement of changes in equity.

28. Share capital and share premium

The historic amount of share capital of the Bank consists of 434,705,128.40 (2009: 434,705,128.40; 2008: 434,705,128.40) authorized shares with a nominal value of TL 0.01 each. The Company's authorized capital amounts to TL 4,347,051 (2009: TL 4,347,051; 2008: TL 4,347,051). In 2008, the Bank increased its issued capital by TL 920,000 from TL 3,427,051 to TL 4,347,051 all in cash within the Bank's registered capital ceiling of TL 5,000,000.

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

	December 31, 2010		December 31, 2009		December 31, 2008	
	Participation rate (%)	TL thousand	Participation rate (%)	TL thousand	Participation rate (%)	TL thousand
Shareholders						
Koç Finansal Hizmetler A.Ş.	81.80	3,555,712	81.80	3,555,712	81.80	3,555,712
Other	18.20	791,339	18.20	791,339	18.20	791,339
Historical share capital	100.00	4,347,051	100.00	4,347,051	100.00	4,347,051
Adjustment to share capital		(60,471)		(60,471)		(60,471)
Share premium		535,679		535,679		535,679
Total share capital and share premium		4,822,259		4,822,259		4,822,259

Transfer of the 59.47% of the shares of Yapı Kredi Faktoring A.Ş. with a nominal value of TL 9,992, 73.10% of the shares of Yapı Kredi Finansal Kiralama A.O. with a nominal value of TL 285,048 and 99.80% of the shares of Yapı Kredi Bank Azerbaijan with a nominal value of AZN6,336,200 (full); all formerly owned by KFS have been completed as of October 31, 2007. As a part of this share exchange the Bank's capital was increased by TL 277,601 through increasing the shareholding of KFS. Besides, the difference between the nominal values of the shares issued by the Bank and the fair values of the shares transferred to the Bank amounting to TL 495,852 have been recorded in equity as "Share Premium".

29. Retained earnings and other reserves

	December 31, 2010	December 31, 2009	December 31, 2008
Statutory reserve	163,984	96,245	44,114
Translation reserves	105,131	113,017	112,761
Revaluation reserve - available-for-sale investments	191,056	94,469	16,108
Hedging reserves	(153,979)	(67,738)	(65,385)
Total other reserves	306,192	235,993	107,598
Retained earnings	5,756,268	3,594,934	2,065,235

Included in retained earnings are costs directly attributable to the issue of new shares shown in equity as a deduction amounting to TL 1,844 during the year 2008.

Notes to the consolidated financial statements at December 31, 2010

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

29. Retained earnings and other reserves (continued)

Movements in other reserves were as follows:

	Statutory reserves	Revaluation reserves	Translation reserves	Hedging reserves	Total
At January 1, 2010	96,245	94,469	113,017	(67,738)	235,993
Net change in available-for-sale investments, net of tax	-	96,587	-	-	96,587
Gains on hedges of a net investment in a foreign operation	-	-	-	15,587	15,587
Losses on cash flow hedges	-	-	-	(101,828)	(101,828)
Currency translation differences	-	-	(7,886)	-	(7,886)
Transfer to statutory reserves	67,739	-	-	-	67,739
At December 31, 2010	163,984	191,056	105,131	(153,979)	306,192
	Statutory reserves	Revaluation reserves	Translation reserves	Hedging reserves	Total
At January 1, 2009	44,114	16,108	112,761	(65,385)	107,598
Net change in available-for-sale investments, net of tax	-	78,361	-	-	78,361
Losses on hedges of a net investment in a foreign operation	-	-	-	(2,353)	(2,353)
Currency translation differences	-	-	256	-	256
Transfer to statutory reserves	52,131	-	-	-	52,131
At December 31, 2009	96,245	94,469	113,017	(67,738)	235,993
	Statutory reserves	Revaluation reserves	Translation reserves	Hedging reserves	Total
At January 1, 2008	17,184	25,797	8,803	(7,945)	43,839
Net change in available-for-sale investments, net of tax	-	(9,689)	-	-	(9,689)
Losses on hedges of a net investment in a foreign operation	-	-	-	(57,440)	(57,440)
Currency translation differences	-	-	103,970	-	103,970
Transfer to statutory reserves	26,930	-	-	-	26,930
Purchase from minority interests	-	-	(12)	-	(12)
At December 31, 2008	44,114	16,108	112,761	(65,385)	107,598

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

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

- First legal reserve, appropriated at the rate of 5% of net income, until the total reserve is equal to 20% of issued and fully paid-in share capital.
- Second legal reserve, appropriated at the rate of at least 10% of distribution in excess of 5% of issued and fully paid-in share capital, without limit. It may be used to absorb losses.

Notes to the consolidated financial statements at December 31, 2010

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

30. Net interest income

	December 31, 2010	December 31, 2009	December 31, 2008
Interest income on:			
Loans and advances:			
- to banks	74,359	66,803	133,831
- to customers	4,665,227	5,283,023	5,365,649
Trading and investment securities	1,231,836	1,422,673	1,575,290
Derivative financial instruments	330,742	396,903	82,569
Financial leases	199,400	254,671	297,227
Reserve deposits	58,431	114,668	218,706
Other	56,140	96,801	63,460
Total interest income	6,616,135	7,635,542	7,736,732
Interest expense on:			
Due to customers	(2,287,023)	(2,866,166)	(3,983,091)
Funds borrowed	(375,991)	(477,008)	(578,328)
Derivative financial instruments	(523,565)	(319,171)	(148,337)
Securities issued	(24,674)	(44,863)	(82,530)
Repurchase agreements	(49,775)	(62,832)	(120,044)
Deposits from banks	(43,738)	(28,452)	(154,808)
Other	(28,931)	(2,536)	(850)
Total interest expense	(3,333,697)	(3,801,028)	(5,067,988)
Net interest income	3,282,438	3,834,514	2,668,744

Notes to the consolidated financial statements at December 31, 2010

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

31. Net fee and commission income

	December 31, 2010	December 31, 2009	December 31, 2008
Fee and commission income on:			
Credit/debit cards	755,687	764,711	775,557
Banking services	704,264	587,524	478,167
Assets under management	272,588	251,363	229,036
Loans			
- Credit related commitments	230,171	213,660	181,364
- Loans and advances	93,015	115,876	86,973
Brokerage	59,123	55,858	31,879
Insurance products	36,926	37,216	25,080
Factoring	14,154	8,947	10,978
Other	52,504	41,064	20,502
Total fee and commission income	2,218,432	2,076,219	1,839,536
Fee and commission expense on:			
Credit/debit cards	(210,192)	(201,379)	(238,363)
Insurance products	(61,324)	(55,039)	(40,450)
Brokerage	(4,447)	(4,798)	(6,028)
Factoring	(2,579)	(2,619)	(4,451)
Funds borrowed	(793)	(1,258)	(1,232)
Other	(69,144)	(86,430)	(43,752)
Total fee and commission expense	(348,479)	(351,523)	(334,276)
Net fee and commission income	1,869,953	1,724,696	1,505,260

32. Net trading, hedging and fair value income and net gains / losses from investment securities

	December 31, 2010	December 31, 2009	December 31, 2008
Foreign exchange:			
- Translation gains less losses of trading securities	6,172	7,829	(19)
- Transaction gains less losses	258,017	251,789	95,199
Interest rate instruments	(303,634)	(155,823)	(43,058)
Equities	2,834	15,525	(9,931)
Credit derivatives	11,153	-	-
Net income from financial instruments designated at fair value	-	(642)	(3,993)
	(25,458)	118,678	38,198

Foreign exchange net trading income includes gains and losses from spot and forward contracts, options, futures and translated foreign currency assets and liabilities. Interest rate instruments includes the results of making markets in instruments in government securities, money market instruments, interest rate and cross currency interest rate swaps, options, hedge items and other derivatives.

Net gains from investment securities amounting to TL 97,153 (2009: TL 33,225 gains; 2008: TL 35,574 losses) comprise of net results on disposals of available-for-sale financial assets and held to maturity investment securities.

Notes to the consolidated financial statements at December 31, 2010

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

33. Other operating expenses

	December 31, 2010	December 31, 2009	December 31, 2008
Staff costs	(1,203,106)	(1,148,078)	(1,150,268)
Depreciation on property and equipment (Note 15)	(142,667)	(145,629)	(126,239)
Amortization of intangible assets (Note 14)	(46,089)	(38,296)	(40,577)
Depreciation and amortization	(188,756)	(183,925)	(166,816)
(Impairment charge) / reversal of impairment on property and equipment (Note 15)	52,942	3,888	(1,841)
(Impairment charge) / reversal of impairment on other intangible assets (Note 14)	2,770	-	-
Impairment charge on assets held for resale (Note 16)	-	-	(522)
Impairment (charge) / reversal	55,712	3,888	(2,363)
Rent expenses	(125,260)	(118,609)	(96,122)
Sundry taxes and duties	(100,779)	(62,396)	(66,852)
Communication expenses	(90,101)	(93,509)	(102,895)
Marketing and advertisement costs	(82,411)	(63,402)	(90,861)
Payment to Saving Deposit Insurance Fund	(64,605)	(62,073)	(37,989)
Utilities	(37,116)	(36,737)	(30,599)
Audit and consultancy fees	(29,700)	(21,139)	(27,331)
Repair and maintenance expenses	(29,073)	(28,642)	(36,499)
Charities	(4,680)	(377)	(4,245)
Other	(424,566)	(374,062)	(299,406)
General administrative expenses	(988,291)	(860,946)	(792,799)
Total	(2,324,441)	(2,189,061)	(2,112,246)

34. Impairment losses on loans and credit related commitments

	December 31, 2010	December 31, 2009	December 31, 2008
Impairment losses on loans and receivables (Note 9)	(385,202)	(1,608,283)	(381,391)
Impairment losses on credit related commitments (Note 23)	(7,929)	(8,243)	(41,827)
	(393,131)	(1,616,526)	(423,218)

Notes to the consolidated financial statements at December 31, 2010

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

35. Earnings per share

Earnings per share disclosed in the consolidated statements of income is determined by dividing the net income attributable to the equity holders of the Parent by the weighted average number of ordinary shares outstanding during the period concerned.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares ("bonus shares") to existing shareholders from retained earnings. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the period is adjusted in respect of bonus shares issued without a corresponding change in resources by giving them a retroactive effect for the period in which they were issued and for each earlier period.

The Bank has not issued any shares attributable to transfers to share capital from retained earnings during the year ended December 31, 2010 (2009: none; 2008: none).

The earnings attributable to basic shares for each period are as follows

	December 31, 2010	December 31, 2009	December 31, 2008
Profit attributable to equity holders of the Parent	2,229,073	1,581,830	1,366,260
Weighted average number of ordinary shares in issue (thousand) (1 Kr each)	434,705,128	434,705,128	346,538,433
Basic and diluted earnings per share (expressed in TL, full amount per thousand share)	5.13	3.64	3.94

36. Assets pledged and restricted

The Group has the following assets pledged as collateral:

	December 31, 2010		December 31, 2009		December 31, 2008	
	Assets	Related liability	Assets	Related liability	Assets	Related liability
Trading securities (Note 7)	43,734	32,914	66,654	51,748	106,454	89,893
Investment securities (Note 10)	3,846,663	3,186,504	1,393,050	1,186,933	763,601	695,534
Other assets pledged ⁽¹⁾	497,616	-	215,980	-	136,649	-
Total	4,388,013	3,219,418	1,675,684	1,238,681	1,006,704	785,427

(1) Other assets pledged are the collaterals given to the counter parties of the derivative transactions and the additional collaterals given in relation to the funds obtained under repurchase agreements.

Available-for-sale and held-to-maturity securities whose total carrying amount is TL 3,890,397 as of December 31, 2010 (2009 - TL 1,459,704; 2008 - TL 870,055) are pledged to banks and other financial institutions against borrowed funds (Note 19) and funds obtained under repurchase agreements (Note 17 and Note 18). Total amount of funds obtained under repurchase agreements is TL 3,219,418 as of December 31, 2010 (2009 - TL 1,238,681; 2008 - TL 785,427). In accordance with the terms of the agreements with these financial institutions ("transferees"), the Bank provides these collaterals (debt instruments as given above) to the transferees and the transferees have the right to sell or repledge the collaterals until the expiry date of the agreements.

Notes to the consolidated financial statements at December 31, 2010

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

36. Assets pledged and restricted (continued)

Securities are also pledged to regulatory authorities for legal requirements and other financial institutions as a guarantee for stock exchange and money market operations. These are mainly the Central Bank of Republic of Turkey (CBRT), Istanbul Stock Exchange (ISE) Settlement and Custody Bank and other financial institutions and amount to TL 2,048,906 (2009 – 1,550,481; 2008 – 2,846,226 TL).

As of December 31, 2010, the Group's reserve deposits that are not available for unrestricted use, including those at foreign central banks, amount to TL 4,389,977 (2009 – TL 2,858,552; 2008 – TL 3,220,074).

37. Commitments and contingent liabilities

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

Legal proceedings

Due to the nature of its business, the Group is involved in a number of claims and legal proceedings, arising in the ordinary course of business. The Group recognizes provisions for such matters when, in the opinion of management and its professional advisors, it is probable that a payment will be made by the Group, and the amount can be reasonably estimated (Note 23).

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

Credit related commitments

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

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

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

Notes to the consolidated financial statements at December 31, 2010

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

37. Commitments and contingent liabilities (continued)

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

December 31, 2010⁽¹⁾	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	1,934,347	1,708,092	357,434	-	3,999,873
Letter of guarantees	7,816,864	2,711,202	3,620,745	798,652	14,947,463
Acceptance credits	165,797	-	-	-	165,797
Other commitments	142,724	144,453	272,644	19,599	579,420
Total	10,059,732	4,563,747	4,250,823	818,251	19,692,553

December 31, 2009⁽¹⁾	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	1,395,290	926,544	398,943	-	2,720,777
Letter of guarantees	7,204,049	2,113,413	3,076,144	707,527	13,101,133
Acceptance credits	151,669	-	-	-	151,669
Other commitments	100,362	77,980	200,309	20,759	399,410
Total	8,851,370	3,117,937	3,675,396	728,286	16,372,989

December 31, 2008⁽¹⁾	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	1,418,078	846,816	459,198	-	2,724,092
Letter of guarantees	7,081,551	2,043,565	3,324,035	703,146	13,152,297
Acceptance credits	211,367	-	-	-	211,367
Other commitments	27,379	34,442	327,493	55,403	444,717
Total	8,738,375	2,924,823	4,110,726	758,549	16,532,473

(1) Based on original maturities.

38. Segment analysis

The Group carries out its banking operations through three main business units: (1) retail banking (including credit cards and SME banking), (2) corporate and commercial banking (3) private banking and wealth management.

The Group's retail banking activities include credit cards, SME (small and medium size enterprises) banking and individual banking. Retail banking products and services offered to customers include credit cards, consumer loans (including general purpose loans, auto loans and mortgages), commercial instalment loans, SME loans, time and demand deposits, investment accounts, life and non-life insurance products and payroll services. Credit card operations cover the management of products and services for member merchants as well as the sales and marketing operations for a variety of customer types. The clubs and programs under the umbrella of the World brand includes, Gold Club, Platinum Club, Crystal Club, Adios (Travel Program), Adios Premium (VIP Travel Program), Play Card (Young Employees Program and Student Program), Fenerbahçe Worldcard, KoçAilem Worldcard, Business Club (Corporate Program, Trio Program, Company Program and SME Program), Taksitçi Card, Share Program and Communication Program. The Parent Bank also offers debit cards and a prepaid card named World Hediye Card.

Notes to the consolidated financial statements at December 31, 2010

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

38. Segment analysis (continued)

Corporate and commercial banking is organized into two sub-segments: commercial banking, which serves mid-sized companies; and corporate banking, which serves large, local and multinational companies. Corporate and commercial banking provides products and services including working capital financing, foreign trade finance, project finance, leasing and factoring, domestic and international non-cash credit line facilities such as letters of credit and guarantees, cash management and e-banking services.

Through its private banking and wealth management activities, the Group serves high net worth customers and delivers investment products to this customer segment. Among the products and services offered to private banking customers are time deposits, mutual funds, derivative products such as forwards, futures and options, personal loans, foreign exchange, gold and equity trading, pension plans, insurance products, safe deposit boxes and e-banking services. Private banking services are enhanced by investment advisory and portfolio management services provided by the Parent Bank and its portfolio management and brokerage subsidiaries.

The Group's widespread branch network and alternative distribution channels including ATMs, telephone banking, internet banking and mobile banking are utilized to serve customers in all segments.

Foreign operations include the Group's banking transactions in the Netherlands, Azerbaijan and Russia.

Other operations mainly consist of treasury transactions, operations of supporting business units, insurance operations and other unallocated transactions.

The Chief Operating Decision Maker manages segment performance based on IFRS consolidated figures.

December 31, 2010	Retail banking	Corporate and commercial banking	Private banking and wealth management	Foreign operations	Other^(*)	Eliminations	Group
Segment revenue	2,791,902	1,328,957	379,007	165,119	1,324,808	(296,998)	5,692,795
Segment expenses	(1,347,294)	(633,416)	(104,257)	(53,289)	(825,561)	63,581	(2,900,236)
Segment result	1,444,608	695,541	274,750	111,830	499,247	(233,417)	2,792,559
Operating profit	1,444,608	695,541	274,750	111,830	499,247	(233,417)	2,792,559
Share of results of associates and joint ventures					6,326		6,326
Profit before tax	1,444,608	695,541	274,750	111,830	505,573	(233,417)	2,798,885
Income tax expense					(563,151)		(563,151)
Profit for the period	1,444,608	695,541	274,750	111,830	(57,578)	(233,417)	2,235,734
December 31, 2010							
Segment assets	26,522,965	33,113,940	1,310,016	4,231,558	27,809,818	(1,272,235)	91,716,062
Associates and joint ventures					94,171		94,171
Total assets	26,522,965	33,113,940	1,310,016	4,231,558	27,903,989	(1,272,235)	91,810,233
Segment liabilities	23,676,641	21,826,378	11,257,340	3,545,619	32,776,864	(1,272,609)	91,810,233
Total liabilities	23,676,641	21,826,378	11,257,340	3,545,619	32,776,864	(1,272,609)	91,810,233

(*) Other segment liabilities also include the equity.

Notes to the consolidated financial statements at December 31, 2010

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

38. Segment analysis (continued)

December 31, 2009	Retail banking	Corporate and commercial banking	Private banking and wealth management	Foreign operations	Other ^(*)	Eliminations	Group
Segment revenue	2,775,312	1,332,593	363,466	116,403	1,655,245	(242,400)	6,000,619
Segment expenses	(2,356,880)	(461,282)	(107,802)	(52,929)	(1,181,609)	59,151	(4,101,351)
Segment result	418,432	871,311	255,664	63,474	473,636	(183,249)	1,899,268
Operating profit	418,432	871,311	255,664	63,474	473,636	(183,249)	1,899,268
Share of results of associates and joint ventures					(1,254)		(1,254)
Profit before tax	418,432	871,311	255,664	63,474	472,382	(183,249)	1,898,014
Income tax expense					(305,946)		(305,946)
Profit for the period	418,432	871,311	255,664	63,474	166,436	(183,249)	1,592,068
December 31, 2009							
Segment assets	19,207,596	22,926,250	809,251	3,952,931	24,755,096	(998,716)	70,652,408
Associates and joint ventures					83,622		83,622
Total assets	19,207,596	22,926,250	809,251	3,952,931	24,838,718	(998,716)	70,736,030
Segment liabilities	20,518,455	15,860,713	9,989,572	3,350,094	22,009,365	(992,169)	70,736,030
Total liabilities	20,518,455	15,860,713	9,989,572	3,350,094	22,009,365	(992,169)	70,736,030

(*) Other segment liabilities also include the equity.

December 31, 2008	Retail banking	Corporate and commercial banking	Private banking and wealth management	Foreign operations	Other ^(*)	Eliminations	Group
Segment revenue	2,329,407	1,112,725	288,802	93,821	916,727	(183,968)	4,557,514
Segment expenses	(1,299,166)	(291,629)	(117,686)	(57,565)	(1,205,810)	99,560	(2,872,296)
Segment result	1,030,241	821,096	171,116	36,256	(289,083)	(84,408)	1,685,218
Operating profit	1,030,241	821,096	171,116	36,256	(289,083)	(84,408)	1,685,218
Share of results of associates and joint ventures					1,166		1,166
Profit before tax	1,030,241	821,096	171,116	36,256	(287,917)	(84,408)	1,686,384
Income tax expense					(316,416)		(316,416)
Profit for the period	1,030,241	821,096	171,116	36,256	(604,333)	(84,408)	1,369,968
December 31, 2009							
Segment assets	18,367,894	23,331,433	551,719	3,920,005	25,023,941	(1,589,537)	69,605,455
Associates and joint ventures					86,947		86,947
Total assets	18,367,894	23,331,433	551,719	3,920,005	25,110,888	(1,589,537)	69,692,402
Segment liabilities	19,367,453	18,160,125	8,467,738	3,374,032	21,905,892	(1,582,838)	69,692,402
Total liabilities	19,367,453	18,160,125	8,467,738	3,374,032	21,905,892	(1,582,838)	69,692,402

(*) Other segment liabilities also include the equity.

Notes to the consolidated financial statements at December 31, 2010

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

39. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, The Group is controlled by Koç Group and UCI, owning 50% of the ordinary shares each of KFS.

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

(i) Balances with related parties:

	December 31, 2010		December 31, 2009		December 31, 2008	
	Share in total	Total %	Share in total	Total %	Share in total	Total %
Loans and advances to customers, net	1,663,655	3	1,073,663	3	595,140	1
Trading and investment securities	179	-	22,359	-	76,298	-
Derivative financial instruments	11,217	2	20,133	3	2,458	1
Loans and advances to banks	5,657	-	1,423	-	210,261	6
Other assets	761	-	139	-	4,473	-
Total assets	1,681,469		1,117,717		888,630	
Customer deposits	7,471,208	14	4,270,341	10	4,241,753	10
Funds borrowed	2,187,131	18	1,167,800	14	1,353,230	14
Derivative financial instruments	6,395	2	3,395	1	9,585	4
Other liabilities	3,136	-	1,694	-	1,371	-
Deposits from banks	3	-	166	-	24,910	2
Total liabilities	9,667,873		5,443,396		5,630,849	
Commitment under derivative instruments	868,457	1	1,088,205	3	711,872	4
Credit related commitments	755,890	4	606,281	4	633,294	4
Total commitments and contingent liabilities	1,624,347		1,694,486		1,345,166	

(ii) Transactions with related parties:

	December 31, 2010		December 31, 2009		December 31, 2008	
	Share in total	Total %	Share in total	Total %	Share in total	Total %
Interest income on loans and advances to customers	111,750	2	91,771	2	105,898	2
Fee and commission income	17,802	1	27,294	1	10,486	1
Interest income on financial leases	-	-	1,414	1	2,689	1
Interest income on loans and advances to banks	92	-	14	-	102	-
Other operating income	4,070	2	9	-	1,899	1
Total interest and fee income	133,714		120,502		121,074	
Interest expense on deposits	(320,623)	14	(328,426)	11	(447,310)	11
Interest expense on funds borrowed	(16,788)	4	(23,864)	5	(28,409)	4
Other operating expense	(9,396)	-	(8,820)	-	(514)	-
Fee and commission expense	(2)	-	(2)	-	(4,131)	1
Total interest and fee expense	(346,809)		(361,112)		(480,364)	

Notes to the consolidated financial statements at December 31, 2010

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

39. Related party transactions (continued)

(iii) Balances with directors and other key management personnel:

	December 31, 2010	December 31, 2009	December 31, 2008
Loans and advances to customers, net	232	177	339
Interest income on loans and advances to customers	6	10	16
Customer deposits	29.590	35,932	25,866
Interest expense on deposits	421	369	592
Fee and commission income	-	-	-
Commitments and contingent liabilities	-	-	-

Salaries and other benefits paid to the Group's key management approximately amount to TL 30,808 as of December 31, 2010 (2009 - TL 35,238; 2008 - TL 31,304).

Significant part of the related party balances and transactions are with related parties other than the parent or the associate or the joint venture; mainly comprising Koç Group and UCI entities.

40. Assets under management

At December 31, 2010, the Group manages 37 mutual funds (2009 - 26; 2008 - 25) with total fund value of TL 6,051,472 (2009 – TL 5,275,858; 2008 - TL 4,540,852) and 23 private pension funds (2009 - 21; 2008 - 22) with total fund value of TL 2,392,102 (2009 – TL 1,745,533; 2008 - TL 1,274,876), which were established under the Turkish Capital Market Board Regulations.

Notes to the consolidated financial statements at December 31, 2010

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

41. Post balance sheet events

- 1- In accordance with the “Change in communiqué regarding the reserve requirements” published in the Official gazette numbered 27788 dated December 17, 2010; TL reserve requirement ratios are regulated as stated below. The new ratio is going to be valid starting from January 7, 2011.
 - Demand, notice deposits and private current accounts 8%
 - Up to 1 month time deposit accounts (1 month included) 8%
 - Up to 3 months time deposit accounts (3 months included) 7%
 - Up to 6 months time deposit accounts (6 months included) 7%
 - Up to 1 year time deposit accounts 6%
 - 1 year and over 1 year time deposit accounts and accumulating deposit accounts 5%
 - Liabilities excluding deposit 8%
- 2- In accordance with the “Change in communiqué regarding the reserve requirements” published in the Official gazette numbered 27825 dated January 24, 2011; TL reserve requirement ratios are regulated as stated below. The new ratio is going to be valid starting from February 4, 2011.
 - Demand, notice deposits and private current accounts 12%
 - Up to 1 month time deposit accounts (1 month included) 10%
 - Up to 3 months time deposit accounts (3 months included) 9%
 - Up to 6 months time deposit accounts (6 months included) 7%
 - Up to 1 year time deposit accounts 6%
 - 1 year and over 1 year time deposit accounts and accumulating deposit accounts 5%,
 - Liabilities excluding deposit 9%
- 3 According to the decision of Turkish Competition Authority numbered 09-36/919-M dated August 19, 2009 and numbered 09-37/924-M dated August 24, 2009, an investigation has been initiated in accordance to the Law on Protection of Competition No. 4054 on the allegations that 8 banks, including the Parent Bank, concurred on a collusion of salary payment promotions offered to public institutions and private companies. According to the decision numbered 11-13 dated March 7, 2011 TL 14,211 penalty has been charged to the Parent Bank. The Parent Bank has recorded adequate provision in the accompanying financial statements as at December 31, 2010.

YAPI VE KREDİ BANKASI A.Ş.

**CONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2009 WITH COMPARATIVES
FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007
TOGETHER WITH THE INDEPENDENT AUDITOR'S REPORT**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Yapı ve Kredi Bankası A.Ş.

1. We have audited the accompanying consolidated financial statements of Yapı ve Kredi Bankası A.Ş. ("the Bank") and its subsidiaries ("the Group") which comprise the consolidated balance sheets as of 31 December 2009, 2008 and 2007 and the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements for the three years then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

4. In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2009, 2008 and 2007 and of its financial performance and its cash flows for each of the three years then ended in accordance with International Financial Reporting Standards.

Başaran Nas Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
a member of
PricewaterhouseCoopers



Zeynep Uras, SMMM
Partner

Istanbul, 23 March 2010

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YAPI VE KREDİ BANKASI A.Ş.

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER

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

	Note	2009	2008	2007
ASSETS				
Cash and balances with central banks	6	4,229,335	4,717,016	3,740,388
Loans and advances to banks	7	3,796,084	3,310,548	1,607,523
Financial assets held for trading				
- Trading securities	8	365,923	396,464	315,530
- Trading derivatives	9	617,704	433,651	48,667
Loans and advances to customers	10	42,137,597	42,469,983	31,846,331
Hedging derivatives		128,631	-	1,684
Investment securities				
- Available-for-sale	11	2,054,256	1,886,091	1,039,899
- Held-to-maturity	11	13,318,719	12,705,781	13,003,287
Investment in associate	12	58,939	55,593	38,220
Goodwill	13	1,023,528	1,023,528	1,023,528
Other intangible assets	14	216,441	179,697	213,801
Property and equipment	15	1,156,183	1,215,588	1,148,731
Deferred income tax assets	22	771,084	509,850	492,263
Other assets	16	1,149,887	989,504	1,039,568
Total assets		71,024,311	69,893,294	55,559,420
LIABILITIES				
Deposits from banks	17	2,432,179	1,082,841	1,262,844
Due to customers	18	42,181,386	43,725,847	34,523,020
Other borrowed funds	19	8,631,136	9,652,438	7,306,943
Debt securities in issue	20	1,744,478	1,966,298	1,542,609
Derivative financial instruments	9	268,515	220,782	237,021
Financial liabilities designated at fair value	21	-	66,434	51,273
Current income taxes payable	22	69,036	8,339	10,570
Deferred income tax liabilities	22	288,294	201,922	132,463
Hedging derivatives		357,613	-	27,785
Other provisions	23	397,871	377,235	301,149
Retirement benefit obligations	24	964,541	869,255	802,626
Insurance technical reserves	25	866,804	835,200	786,468
Other liabilities	26	4,116,055	3,847,688	3,507,975
Total liabilities		62,317,908	62,854,279	50,492,746
EQUITY				
Share capital and share premium	28	4,822,259	4,822,259	3,900,011
Other reserves	29	235,993	107,598	43,839
Retained earnings	29	3,594,934	2,065,235	829,603
Equity attributable to shareholders of the Parent		8,653,186	6,995,092	4,773,453
Equity attributable to minority interest		53,217	43,923	293,221
Total equity		8,706,403	7,039,015	5,066,674
Total liabilities and equity		71,024,311	69,893,294	55,559,420

The accompanying notes set out on pages 6 to 100 form an integral part of these consolidated financial statements.

YAPI VE KREDİ BANKASI A.Ş.**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER**

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

	Note	2009	2008	2007
Interest income	30	7,635,542	7,736,732	6,548,688
Interest expense	30	(3,801,028)	(5,067,988)	(4,271,016)
Net interest income		3,834,514	2,668,744	2,277,672
Fee and commission income	31	2,076,219	1,839,536	1,486,052
Fee and commission expense	31	(351,523)	(334,276)	(334,782)
Net fee and commission income		1,724,696	1,505,260	1,151,270
Foreign exchange gains, net		130,623	106,278	122,760
Net trading, hedging and fair value income	32	118,678	38,198	19,047
Gains / losses from investment securities, net	32	33,225	(35,574)	(17,749)
Insurance technical income, net		22,532	80,225	105,063
Other operating income		129,680	191,882	114,250
Operating income		5,993,948	4,555,013	3,772,313
Impairment losses on loans and credit related commitments, net	34	(1,616,526)	(423,218)	(321,794)
Provision for retirement benefit obligations	24	(110,302)	(83,674)	(118,727)
Other provisions	23	(185,462)	(253,158)	(229,431)
Other operating expenses	33	(2,189,061)	(2,112,246)	(1,902,979)
Operating profit		1,892,597	1,682,717	1,199,382
Share of profit of associate	12	5,417	3,667	1,890
Profit before income tax		1,898,014	1,686,384	1,201,272
Income tax expense	22	(305,946)	(316,416)	(237,677)
Profit for the year		1,592,068	1,369,968	963,595
Attributable to:				
Equity holders of the Bank		1,581,830	1,366,260	812,474
Minority interest		10,238	3,708	151,121
		1,592,068	1,369,968	963,595
Basic earning per share attributable to the equity holders of the Bank (expressed in TL per thousand share)		3.64	3.94	2.53

The accompanying notes set out on pages 6 to 100 form an integral part of these consolidated financial statements.

YAPI VE KREDİ BANKASI A.Ş.**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER**

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

	Note	2009	2008	2007
Profit for the year		1,592,068	1,369,968	963,595
Exchange differences on translation of foreign operations		256	103,970	(43,164)
Net gains on available-for-sale financial assets				
- Unrealised net gains arising during the period, before tax		82,652	8,062	12,761
- Net reclassification adjustments for realised net losses, before tax		(4,167)	(13,487)	(676)
Net investment hedges				
- Net losses arising on hedges recognised in other comprehensive income, before tax		(2,941)	(71,800)	14,061
- Net amount reclassified to the income statement, before tax		-	-	-
Income tax relating to components of other comprehensive income	22	958	10,354	(7,234)
Other comprehensive income for the year, net of tax		76,758	37,099	(24,252)
Total comprehensive income for the year		1,668,826	1,407,067	939,343
Total comprehensive income attributable to:				
Equity holders of the parent entity (total)		1,658,094	1,403,101	803,372
Minority interests (total)		10,732	3,966	135,971

The accompanying notes set out on pages 6 to 100 form an integral part of these consolidated financial statements

YAPI VE KREDİ BANKASI A.Ş.

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

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

	Note	Attributable to equity holders of the Bank				Minority interest	Total equity
		Share capital	Share premium	Other Reserves	Retained earnings		
Balance at 1 January 2007		3,082,347	37,579	46,293	492,539	548,277	4,207,035
Net change in available for sale investments, net of tax	29	-	-	7,372	-	291	7,663
Gains on hedges of a net investment in a foreign operation	29	-	-	11,249	-	-	11,249
Currency translation differences		-	-	(27,723)	-	(15,441)	(43,164)
Other comprehensive income		-	-	(9,102)	-	(15,150)	(24,252)
Profit for the year		-	-	-	812,474	151,121	963,595
Total comprehensive income for the year		-	-	(9,102)	812,474	135,971	939,343
Issue of share capital		6,632	-	-	(6,632)	-	-
Dividends paid		-	-	-	-	(77,740)	(77,740)
Effect of merged entities under common control	2.Q	-	-	8,742	(146,660)	137,918	-
Effect of share exchange transaction	28	277,601	495,852	(2,094)	(322,505)	(448,854)	-
Purchase from minority interests	27	-	-	-	387	(2,351)	(1,964)
Balance at 31 December 2007		3,366,580	533,431	43,839	829,603	293,221	5,066,674
Net change in available for sale investments, net of tax	29	-	-	(9,689)	-	258	(9,431)
Gains on hedges of a net investment in a foreign operation	29	-	-	(57,440)	-	-	(57,440)
Currency translation differences		-	-	103,970	-	-	103,970
Other comprehensive income		-	-	36,841	-	258	37,099
Profit for the year		-	-	-	1,366,260	3,708	1,369,968
Total comprehensive income for the year		-	-	36,841	1,366,260	3,966	1,407,067
Issue of share capital		920,000	2,248	-	(1,844)	-	920,404
Dividends paid		-	-	-	-	(1,450)	(1,450)
Transfer to statutory reserves		-	-	26,930	(26,930)	-	-
Purchase from minority interests	27	-	-	(12)	(101,854)	(251,814)	(353,680)
Balance at 31 December 2008		4,286,580	535,679	107,598	2,065,235	43,923	7,039,015
Net change in available for sale investments, net of tax	29	-	-	78,361	-	494	78,855
Gains on hedges of a net investment in a foreign operation	29	-	-	(2,353)	-	-	(2,353)
Currency translation differences		-	-	256	-	-	256
Other comprehensive income		-	-	76,264	-	494	76,758
Profit for the year		-	-	-	1,581,830	10,238	1,592,068
Total comprehensive income for the year		-	-	76,264	1,581,830	10,732	1,668,826
Dividends paid		-	-	-	-	(1,438)	(1,438)
Transfer to statutory reserves		-	-	52,131	(52,131)	-	-
Balance at 31 December 2009		4,286,580	535,679	235,993	3,594,934	53,217	8,706,403

The accompanying notes set out on pages 6 to 100 form an integral part of these consolidated financial statements.

YAPI VE KREDİ BANKASI A.Ş.

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER

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

	Note	2009	2008	2007
Cash flows from operating activities				
Net profit		1,592,068	1,369,968	963,595
Adjustments for:				
Unrealised gain on financial assets held for trading, net		(12,835)	10,861	9,648
Allowances for losses on loans and advances	34	1,616,526	423,218	321,794
Measurement of derivative financial instruments at fair value		92,662	(427,324)	261,814
Share of profit of associate	12	(5,417)	(3,667)	(1,890)
Amortisation of other intangible assets	33	38,296	40,577	34,274
Depreciation of property and equipment	33	145,629	126,239	132,282
Impairment charge on property and equipment, net	33	(3,888)	1,841	(1,345)
Impairment charge on assets held for resale	33	-	522	5,566
Provision for current and deferred income taxes	22	305,946	316,416	237,677
Other provisions	23	185,462	253,158	229,431
Provision for retirement benefit obligations	24	110,302	83,674	118,727
Other liabilities		(7,246)	16,572	112,837
Unearned commission income		(19,024)	33,241	(5,398)
Dividend income		(3,403)	(41,553)	(3,335)
Interest income - net	30	(3,834,514)	(2,668,744)	(2,277,672)
Interest paid		(4,036,179)	(4,932,679)	(4,266,418)
Interest received		7,871,848	7,229,845	6,657,214
Translation difference	29	(2,097)	46,518	(9,872)
Effect of exchange rates on financing activities		46,593	2,126,433	(1,206,314)
Other non-cash items		(139,746)	(221,222)	471,072
Cash flows from operating profits before changes in operating assets and liabilities		3,940,983	3,783,894	1,783,687
Changes in operating assets and liabilities:				
Net decrease / (increase) in cash balances with central banks		318,671	(454,446)	356,219
Net decrease / (increase) in loans and advances to banks		1,043,986	(633,039)	(336,034)
Net decrease / (increase) in trading securities		7,901	(91,795)	236,300
Net (increase) in loans and advances to customers		(1,383,655)	(10,518,233)	(7,048,954)
Net (increase) in other assets		(307,345)	(18,506)	(21,275)
Net increase / (decrease) in deposits from banks		1,133,647	(307,505)	(366,847)
Net (decrease) / increase in due to customers		(1,379,018)	9,118,115	347,280
Net increase / (decrease) in other liabilities and provisions		147,873	(218,820)	(454,724)
Income taxes paid		(147,586)	(236,878)	(232,042)
Net cash from / (used in) operating activities		3,375,457	422,787	(5,736,390)
Cash flows from investing activities				
Purchase of property and equipment	15	(122,275)	(189,967)	(108,650)
Proceeds from the sale of property and equipment	15	39,876	26,792	81,545
Purchase of intangible assets, net	14	(75,321)	(36,992)	(68,824)
Purchase / increase in held-to-maturity securities	11	(1,937,939)	(2,164,454)	(2,784,303)
Redemption of held-to-maturity securities	11	1,139,115	1,882,322	6,648,239
(Purchase) of available-for-sale securities	11	(17,563,113)	(32,149,066)	(24,016,181)
Redemption of available-for-sale securities		17,399,386	31,375,990	23,743,737
Dividends received		3,403	41,553	3,335
Disposal of investments, net		24,074	(6,373)	84,121
Net cash (used in) investing activities		(1,092,794)	(1,220,195)	3,583,019
Cash flows from financing activities				
(Repayments of) borrowed funds and debt securities		(3,247,587)	(4,187,110)	(5,486,363)
Proceeds from borrowed funds and debt securities		2,458,835	4,947,351	6,588,377
Issue of ordinary shares		-	922,248	-
Dividend paid to minority		(1,438)	(1,450)	(77,740)
Net cash from financing activities		(790,190)	1,681,039	1,024,274
Net increase/(decrease) in cash and cash equivalents		1,492,473	883,631	(1,129,097)
Effects of foreign exchange-rate changes on cash and cash equivalents		32,709	632,517	(359,564)
Cash and cash equivalents at beginning of the year	5	3,553,244	2,037,096	3,525,757
Cash and cash equivalents at end of the year	5	5,078,426	3,553,244	2,037,096

The accompanying notes set out on pages 6 to 100 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 1 - GENERAL INFORMATION

Yapı ve Kredi Bankası A.Ş. (“YKB” or the “Bank” or together with its subsidiaries it is referred to as “the Group” in these consolidated financial statements) was established with the permission of the Council of Ministers of the Republic of Turkey No.3/6710 on 9 September 1944 as a private capital commercial bank, authorised to perform all banking, economic, financial and commercial activities which are allowed by Turkish laws. The statute of the Bank has not changed since its corporation. The Group provides retail, corporate, private, credit cards, leasing, factoring and investment management services. The Group has operations in Turkey, Netherlands, Azerbaijan and Russia.

The Group’s immediate parent with 81.80% of shareholding is Koç Finansal Hizmetler A.Ş. (“KFS”), a joint venture of UniCredit Group (“UCI”) and Koç Group. KFS was established as financial holding company on 16 March 2001 to combine Koç Group financial services companies under one organisation. As of 22 October 2002, Koç Group established a strategic partnership with UCI over KFS.

The Bank’s shares have been traded on the Istanbul Stock Exchange (“ISE”) since 1987. As of 31 December 2009, 18.20% shares of the Bank are publicly traded (2008: 18.20%; 2007: 18.21%). The Bank’s publicly traded shares are traded on ISE and the representatives of these shares, Global Depository Receipts, are quoted on London Stock Exchange.

At 31 December 2009, the Group has 16,713 employees (2008: 17,359 employees; 2007: 16,779 employees). The Bank has 837 branches operating in Turkey and 1 branch in off-shore region (2008: 860 branches operating in Turkey, 1 branch in off-shore region; 2007: 675 branches operating in Turkey, 1 branch in off-shore region and 1 representative office) and 14,333 employees (2008: 14,795 employees; 2007: 14,249 employees).

The Bank is registered in Istanbul, Turkey at the following address: Yapı Kredi Plaza D Blok, Levent 34330, İstanbul, Turkey.

These consolidated financial statements have been approved for issue by the Board of Directors on 23 March 2010.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of preparation

The consolidated financial statements are based on the historical cost convention, as modified by the revaluation of available-for-sale investment securities, financial assets and financial liabilities categorised as at fair value through profit or loss and all derivative contracts.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**(a) Standards, amendments and interpretations effective on or after 1 January 2009**

The following standards, amendments and interpretations, which became effective in 2009 are relevant to the Group:

Standard/ interpretation	Content	Applicable for financial years beginning on/after
IFRS 7	Improving disclosures about financial instruments	1 January 2009
IFRS 8	Operating segments	1 January 2009
IAS 1	Presentation of financial statements	1 January 2009

- *Amendments to IFRS 7, 'Financial instruments: Disclosures'*

The IASB published amendments to IFRS 7 in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the Group.

- *IFRS 8, 'Operating segments'*

IFRS 8 was issued in November 2006 and excluding early adoption would first be required to be applied to the Group's accounting period beginning on 1 January 2009. The standard replaces IAS 14, 'Segment reporting', with its requirement to determine primary and secondary reporting segments. Under the requirements of the revised standard, the Group's external segment reporting will be based on the internal reporting to the group executive board (in its function as the chief operating decision-maker), which makes decisions on the allocation of resources and assess the performance of the reportable segments. The application of IFRS 8 does not have any material effect for the Group.

- *IAS 1 (revised), 'Presentation of financial statements'*

A revised version of IAS 1 was issued in September 2007. It prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also conforms with the revised standard. According to the amendment of IAS 1 in January 2008, each component of equity, including each item of other comprehensive income, should be reconciled between carrying amount at the beginning and the end of the period. Since the change in accounting policy only impacts presentation aspects, there is no impact on retained earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Standards and interpretations issued but not yet effective

The following standards and interpretations have been issued and are mandatory for the Group's accounting periods beginning on or after 1 July 2009 or later periods and are expected to be relevant to the Group:

Standard/ interpretation	Content	Applicable for financial years beginning on/after
IFRS 1 and IAS 27	Cost of an investment in a subsidiary, jointly controlled entity or associate	1 July 2009
IFRS 3	Business combinations	1 July 2009
IAS 27	Consolidated and separate financial statements	1 July 2009
IAS 39	Financial instruments: Recognition and measurement - eligible hedged items	1 July 2009
IFRIC 17	Distribution of non-cash assets to owners	1 July 2009
IFRS 9	Financial instruments part 1: Classification and measurement	1 January 2013

- *IFRS 1 and IAS 27, 'Cost of an investment in a subsidiary, jointly-controlled entity or associate'*

The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and requires an entity to present dividends from investments in subsidiaries, jointly controlled entities and associates as income in the separate financial statements of the investor.

- *IFRS 3, 'Business combinations'*

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

- *IAS 27, 'Consolidated and separate financial statements'*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- *IAS 39, 'Financial instruments: Recognition and measurement – Eligible hedged items'*

The amendment 'Eligible hedged items' was issued in July 2008. It provides guidance for two situations. On the designation of a one-sided risk in a hedged item, IAS 39 concludes that a purchased option designated in its entirety as the hedging instrument of a one-sided risk will not be perfectly effective. The designation of inflation as a hedged risk or portion is not permitted unless in particular situations. Currently, these changes are not relevant for the Group's consolidated financial statements.

- *IFRIC 17, 'Distribution to non-cash assets to owners'*

IFRIC 17 was issued in November 2008. It addresses how the non-cash dividends distributed to the shareholders should be measured. A dividend obligation is recognized when the dividend was authorised by the appropriate entity and is no longer at the discretion of the entity. This dividend obligation should be recognised at the fair value of the net assets to be distributed. The difference between the dividend paid and the amount carried forward of the net assets distributed should be recognised in profit and loss. Currently, these changes are not relevant for the Group's consolidated financial statements.

- *IFRS 9, 'Financial instruments part 1: Classification and measurement'*

IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets.

Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. However, European Financial Reporting Advisory Group has not endorsed IFRS 9 yet.

The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

(c) Early adoption of standards

The Group did not early-adopt new or amended standards in 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**B. Consolidation****(a) Subsidiaries**

Subsidiaries (including special purpose entity), in which Group has power to control the financial and operating policies for the benefit of YKB, either (a) through the power to exercise more than 50% of the voting rights relating to shares in the companies owned directly and indirectly by itself; or (b) although not having the power to exercise more than 50% of the using rights, otherwise having the power to exercise control over the financial and operating policies, have been fully consolidated. The Group sponsors the formation of special purpose entities, which may or may not be directly owned, for the purpose of asset securitization transactions. Such entities are consolidated in the Group's consolidated financial statements when the substance of the relationship between the Group and the entity indicates that control is held by the Group. Subsidiaries and special purpose entities are consolidated from the date on which control is transferred to Group and are no longer consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

The balance sheets and income statements of the subsidiaries and special purpose entity are consolidated on a line-by-line basis and the carrying value of the investment held by YKB and its subsidiaries is eliminated against the related equity. Intercompany transactions and balances between the Group companies are eliminated on consolidation. The dividends arising from subsidiaries are eliminated from profit of the year.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The list of principal subsidiaries at 31 December 2009, 2008 and 2007 is as follows:

Name of subsidiary	Country of incorporation	Nature of business
Yapı Kredi Leasing	Turkey	Leasing
Yapı Kredi Faktoring	Turkey	Factoring
Yapı Kredi Portföy	Turkey	Portfolio management
Yapı Kredi Menkul (Note 27)	Turkey	Investment management
Yapı Kredi Yatırım Ortaklığı A.Ş.	Turkey	Portfolio management
Yapı Kredi Sigorta A.Ş.	Turkey	Insurance
Yapı Kredi Emeklilik A.Ş.	Turkey	Insurance
Yapı Kredi NV (Note 27)	Netherlands	Banking
Stiching Custody Services YKB	Netherlands	Custody Services
Yapı Kredi Bank Moscow	Russia	Banking
Yapı Kredi Bank Holding B.V.	Netherlands	Financial Holding
Yapı Kredi Azerbaijan	Azerbaijan	Banking
Yapı Kredi Invest LLC	Azerbaijan	Investment management
Enternasyonal Turizm Yatırım A.Ş. ("Enternasyonel") ⁽¹⁾	Turkey	Investment
Yapı Kredi Koray G.Y.O.A.Ş. ("Yapı Kredi Koray") ⁽¹⁾	Turkey	Real estate
Agro-san Kimya Sanayi ve Ticaret A.Ş. ("Agro-san") ⁽¹⁾	Turkey	Agricultural chemicals
Yapı Kredi Kültür Sanat Yayıncılık Tic. ve San. A.Ş. ⁽¹⁾	Turkey	Culture / art publications
Yapı Kredi Diversified Payment Rights Finance Co. ⁽²⁾	Cayman Islands	Special Purpose Company ("SPC")

⁽¹⁾ These subsidiaries were not consolidated due to immateriality and classified as available-for-sale securities carried at their fair values.

⁽²⁾ Yapı Kredi Diversified Payment Rights Finance Company is a special purpose entity established for YKB's securitisation transactions as explained in Note 20. It is included in the consolidation although YKB or any of its affiliates does not have any shareholding interest in this company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Name of subsidiary	2009		2008		2007	
	Control rates (%)	Effective rates (%)	Control rates (%)	Effective rates (%)	Control rates (%)	Effective rates (%)
Yapı Kredi Leasing	98.85	98.85	98.85	98.85	98.85	98.85
Yapı Kredi Faktoring	99.96	99.96	99.96	99.96	99.96	99.96
Yapı Kredi Portföy	99.97	99.95	99.97	99.95	99.97	69.15
Yapı Kredi Menkul (Note 27)	99.98	99.98	99.98	99.98	64.70	64.70
Yapı Kredi Yatırım Ortaklığı A.Ş.	56.07	56.06	56.07	56.06	56.07	40.19
Yapı Kredi Sigorta A.Ş.	93.94	93.94	93.94	93.94	93.94	89.71
Yapı Kredi Emeklilik A.Ş.	100.00	93.94	100.00	93.94	100.00	89.70
Yapı Kredi NV (Note 27)	100.00	100.00	100.00	100.00	32.76	32.76
Stiching Custody Services YKB	100.00	100.00	100.00	100.00	32.76	32.76
Yapı Kredi Bank Moscow	100.00	100.00	100.00	100.00	100.00	100.00
Yapı Kredi Bank Deutschland A.G.	-	-	-	-	100.00	100.00
Yapı Kredi Bank Holding B.V.	100.00	100.00	100.00	100.00	100.00	100.00
Yapı Kredi Azerbaijan	100.00	100.00	100.00	100.00	100.00	99.96
Yapı Kredi Invest LLC	100.00	100.00	100.00	100.00	-	-
Enternasyonel ⁽¹⁾	99.99	99.96	99.99	99.96	99.99	99.96
Yapı Kredi Koray ⁽¹⁾	30.45	30.45	30.45	30.45	30.45	30.45
Agro-san ⁽¹⁾	100.00	99.99	100.00	99.99	100.00	99.99
Yapı Kredi Kültür Sanat Yayıncılık Tic. ve San. A.Ş. ⁽¹⁾	100.00	99.99	100.00	99.99	100.00	99.99
Yapı Kredi Diversified Payment Rights Finance Co. ⁽²⁾						

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in associate is accounted for using the equity method of accounting and is initially recognised at cost. The Group's investment in associate includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in Group's equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associate have been changed where necessary to ensure consistency with the policies adopted by the Group.

The details of the associate at 31 December 2009, 2008 and 2007 are as follows:

Name of associate	Country of incorporation	Nature of business	Original currency	2009		2008		2007	
				Control rate (%)	Effective rate (%)	Control rate (%)	Effective rate (%)	Control rate (%)	Effective rate (%)
Banque de Commerce et de Placements ("Banque de Commerce")	Switzerland	Banking	CHF	30.67	30.67	30.67	30.67	30.67	30.67

(c) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions within the Group, as the minority interests are perceived as genuine equity participations. An acquisition of minority interest is treated as a transaction between equity shareholders which affects the ownership structure of the entity but not its operations. The difference between the acquisition cost and net asset acquired portion is recognised under equity. Disposals from minority interests are also considered as equity transactions and result in changes in the equity of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Fund management

The Group manages and administers open-ended mutual funds and private pension funds. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's funds management is set out in Note 40.

C. Foreign currency translation

(a) Functional and presentation currency

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

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

(c) Group companies

The results and financial position of all the group entities that have a functional currency different from the presentation currency (none of which has the currency of a hyperinflationary economy) are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the exchange rate prevailing at the date of that balance sheet,
- (ii) income and expenses for each income statement are translated at average exchange rates.

Exchange differences resulting from the different rates applied for the translation of the balance sheet and the income statement as well as differences arising from the translation of the portion of the net asset value in foreign entities pertaining to the Group are recognised as "currency translation differences" in the equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings designated as hedges of such investments, are taken to equity.

When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on the sale.

D. Related parties

For the purpose of these consolidated financial statements, shareholders, companies controlled by or affiliated with them and other companies within the Koç Group and the UniCredit Group are considered and referred to as related parties (Note 39).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Due from other banks

Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortised cost.

F. Financial assets and liabilities at fair value through profit or loss

This category has two sub-categories financial assets held for trading and those designated at fair value through profit or loss at inception. Financial assets and financial liabilities are designated at fair value through profit or loss when doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments were carried at amortised cost for such as loans and advances to customers or banks and debt securities in issue.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in 'net trading, hedging and fair value income'.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Trading securities are initially recognised and subsequently re-measured at fair value. All related realised and unrealised fair value gains and losses are included in net trading income. Interest earned whilst holding trading securities is reported as interest income.

All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised at the settlement date, which is the date that the asset is delivered to/by the Group.

G. Investment securities

Investment securities are classified into the following two categories: held-to-maturity and available-for-sale assets. Investment securities with fixed maturity, where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, or client's servicing activity are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment securities are initially recognised at fair value, which is the cash consideration including any transaction costs. Available-for-sale investment debt and listed equity securities are subsequently remeasured at fair value based on quoted bid prices, or amounts derived from cash flow models. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in the equity as “other reserves”. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

Held-to-maturity investments are carried at amortised cost using the effective yield method, less any provision for impairment.

Interest earned whilst holding investment securities is reported as interest income.

All purchases and sales of investment securities are recognised at settlement date, which is the date the asset is delivered to/by the Group.

Unsettled transactions are recorded as off-balance sheet commitments until the settlement date.

H. Sale and repurchase agreements

Securities sold subject to linked repurchase agreements (“repos”) are retained in the consolidated financial statements as trading or investment securities and the counterparty liability is included in customer deposits. Securities purchased under agreements to resell (“reverse repos”) are recorded as due from banks. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective interest method.

I. Loans and advances to customers

Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortised cost less allowance for impairment. When impaired financial assets are renegotiated and the renegotiated terms and conditions differ substantially from the previous terms, the new asset is initially recognised at its fair value.

The Group holds appropriate collateral for each loan according to its specified risk and the relevant Banking Regulation and Supervision Agency (“BRSA”) communiqués. The collateral strategy differentiates between collateral types on the basis of customers’ ratings and loan terms. In general, the types of collaterals are cash collaterals, mortgages, guarantees, promissory notes, securities issued by the Turkish Treasury Under-secretariat and Central Bank and pledge on assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Impairment of financial assets carried at amortised cost

Impairment losses are recognised in profit or loss when incurred as a result of one or more events (“loss events”) that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers whether a financial asset is impaired is its overdue status and realisability of related collateral, if any. The following other principal criteria are also used to determine that there is objective evidence that an impairment loss has occurred:

- any installment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by borrower’s financial information that the bank obtains;
- the borrower considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower;

In practice, the Group uses a set of obligatory and judgement-based triggers that can lead to a classification as impaired. The final decision on impaired classification is always subject to expert judgement. Obligatory triggers include bankruptcy, financial restructuring and 90 days’ past due. Judgement-based triggers include elements such as (but are not limited to) negative equity, regular payment problems, improper use of credit lines, legal action by other creditors. These triggers are complementary to the judgement of an expert.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors’ ability to pay all amounts due according to the contractual terms of the assets being evaluated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of Management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

Group adopted Incurred but not reported (“IBNR”) model for performing loans, based on Basel II expected loss concept with intrinsic elements such as loss detection period (“LDP”) and expert views. IBNR impairments on loans represent the provisions that are created not only for transaction on which loss events were individually identified, but also for these transactions where loss events have already occurred, but have not been reported yet. In such case provision is created in such proportion to the exposure that reflects the amount of losses that have been incurred as a result of the past but not reported events.

Impairment losses are always recognised through an allowance account to write down the asset’s carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

K. Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. The fair values of derivative financial instruments that are quoted in active markets are determined from quoted market prices in active markets including recent market transactions. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques, including discounted cash flow models. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed. Fair values of derivatives are carried as assets when positive and as liabilities when negative. The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received). Derivative financial instruments are classified as held for trading.

Certain derivative transactions, even though providing effective economic hedges under the Group risk management position, do not qualify for hedge accounting under the specific rules in IAS 39, and are therefore treated as derivatives held for trading with fair value gains and losses reported in income statement. The fair value of over-the-counter (“OTC”) forward foreign exchange contracts is determined based on the comparison of the original forward rate with the forward rate calculated by reference to market interest rates of the related currency for the remaining period of the contract, discounted to 31 December 2009. The difference between the spot rate at the time of origination and the original forward rate (for matured contracts) and the original forward rate discounted to balance sheet date (for outstanding contracts) is reclassified to interest income and expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Embedded derivatives are separated from the host contract and accounted for as a derivative in accordance with IAS 39, if and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

If an embedded derivative is separated, the host contract shall be accounted for under IAS 39 if it is a financial instrument and in accordance with other appropriate standards if it is not a financial instrument. IAS 39 does not address whether an embedded derivative shall be presented separately on the face of the financial statements.

L. Hedge accounting

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in values of hedged items.

Net investment hedge

The effective portion of changes in the fair value of borrowings that are designated and qualify as net investment hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Effective changes in fair value of interest rate swaps and related hedged items are reflected in “net trading, hedging and fair value income”. Any ineffectiveness is also recorded in “net trading, hedging and fair value income”.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

M. Property and equipment

All property and equipment are carried at cost less accumulated depreciation and permanent impairment if any. Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful life as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and value in use.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account for the determination of net profit.

Expenses for the repair of property and equipment are charged against income. They are, however, capitalised if they result in an enlargement or substantial improvement of the respective assets.

Leasehold improvements comprise primarily the capitalised branch refurbishment costs.

N. Other intangible assets

(i) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives (not exceeding a period of five years).

(ii) Trademarks and customer relationships related intangibles

Intangible assets such as trademarks and customer relationships related intangibles acquired in a business combination are carried at fair value at the acquisition date. The fair value of an intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Group. In other words, the effect of probability is reflected in the fair value measurement of the intangible asset. The Group recognises at the acquisition date separately from goodwill an intangible asset of the acquiree if the asset's fair value can be measured reliably, irrespective of whether the asset had been recognised by the acquiree before the business combination. Those intangible assets are amortised using the straight-line method over their useful lives, which have been assessed as 10 years.

(iii) Other intangible assets

Expenditures to acquire patents, rights and licenses are capitalised and amortised using the straight-line method over their useful lives of 5 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Accounting for leases

(i) Group company is the lessor

When assets are sold under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

(ii) Group company is the lessee

Finance lease

Assets acquired under finance lease agreements are capitalised at the inception of the lease at the fair value of the leased asset, which is the amount of cash consideration given for the leased asset. Lease payments are treated as comprising capital and interest elements; the capital element is treated as reducing the capitalised obligation under the lease and the interest element is charged to income. Depreciation on the leased asset is also charged to income on a straight-line basis over the useful life of the asset.

Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

P. Business combinations and goodwill

A business combination is the bringing together of separate entities or businesses into one reporting entity. Business combinations are accounted for using the purchase method in the scope of IFRS 3.

The cost of a business combination is allocated by recognising the acquiree's identifiable assets, liabilities and contingent liabilities at the date of acquisition. Any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the business combination cost is accounted for as goodwill. In business combinations, the acquirer recognises identifiable assets, intangible assets (such as trademarks) and/or contingent liabilities which are not included in the acquiree's financial statements and which can be separated from goodwill, at their fair values in the consolidated financial statements. The goodwill previously recognised in the financial statements of the acquiree is not considered as an identifiable asset.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses, if any (Notes 13 and 27). Goodwill is allocated to cash-generating units for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management purposes. Each of those cash-generating units is represented by each reporting segment except foreign operations. Cash generating units at which impairment testing is carried out is not greater than a reportable segment (Note 38). Impairment testing is performed at least annually by comparing the present value of the expected future cash flows from a business with the carrying amount of its net assets, including attributable goodwill.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. Business combinations involving entities under common control

A business combination involving entities under common control of KFS is a business combination in which all of the combining entities are ultimately controlled by KFS both before and after the business combination, and that control is not transitory. In that respect, the Group considers legal mergers arising between entities ultimately controlled by KFS as business combinations under common control. On the other hand, business combination involving entities under common control is scoped out of IFRS 3 and there is no other guidance on how to account for such transactions in current IFRS literature.

As there is an absence of a Standard or an Interpretation that specifically applies to business combination involving entities under common control, the Bank management, in accordance with IAS 8, used its judgment and developed and applied an accounting policy that the management believes resulted in information that is relevant to the economic decision-making needs of users and reflected the economic substance of transactions and not merely its legal form. In making its judgment in accordance with IAS 8, management considered US GAAP as a framework with a similar conceptual framework and applied pooling of interest method applicable under US GAAP in accounting the business combinations involving entities under common control of KFS.

Since business combinations involving entities under common control of KFS result in a single combined entity, a single uniform set of accounting policies is adopted. Therefore, the combined entity recognizes the assets, liabilities and equity of the combining entities at their existing carrying amounts adjusted only as a result of conforming the combining entities' accounting policies and applying those policies to all periods presented. There is no recognition of any new goodwill or negative goodwill. Similarly, the effects of all transactions between the combining entities, whether occurring before or after the merger, are eliminated in preparing the financial statements of the combined entity.

Expenditures incurred in relation to legal mergers are recognized as expenses in the period in which they are incurred.

R. Impairment of non-financial assets

At each reporting date, the Group evaluates whether there is any impairment indication on the non-financial asset. When an indication of impairment exists, the Group estimates the recoverable values of such non-financial assets. Impairment exists if the carrying value of a non-financial asset or a cash generating unit is greater than its recoverable amount which is the higher of value in use or fair value less costs to sell. Value in use is the present value of the future cash flows expected to be derived from a non-financial asset or cash-generating unit. An impairment loss is recognised immediately in the consolidated income statement. A cash-generating unit is the smallest identifiable group of non-financial assets that generates cash inflows that are largely independent of the cash flows from other non-financial assets or group of non-financial assets. An impairment loss recognised in prior periods for an asset is reversed if the subsequent increase in the non-financial asset's recoverable amount is caused by a specific event since the last impairment loss was recognised. Such a reversal amount cannot be higher than the previously recognised impairment and is recognised as income in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

S. Financial liabilities

Financial liabilities including deposits from banks, due to customers and other borrowed funds are recognised initially at fair value plus transaction costs. Subsequently, financial liabilities are stated at amortised cost, including transaction costs, and any difference between net proceeds and the redemption value is recognised in the income statement over the period of the financial liability using the effective interest method.

T. Income taxes

(i) Income taxes currently payable

Income taxes ("corporation tax") currently payable are calculated based in accordance with the Turkish tax legislation (Note 22).

Taxation for foreign subsidiaries has been provided for in these consolidated financial statements in accordance with relevant tax legislations currently in force in countries of operation of related foreign subsidiaries.

Taxes other than on income are recorded within operating expenses (Note 33).

(ii) Deferred income taxes

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The rates enacted, or substantively enacted, at the balance sheet date are used to determine deferred income tax.

The principal temporary differences arise from measurement of financial assets and liabilities at fair value, provision for loan impairment, provision for employment termination benefits and unused investment allowances.

Deferred income tax liabilities and assets are recognised when it is probable that the future economic benefit resulting from the reversal of temporary differences will flow to or from the Group. Deferred income tax assets resulting from temporary differences are recognised to the extent that it is probable that future taxable profit will be available against which the deferred income tax asset can be utilised (Note 22).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**U. Retirement benefit obligations***(a) Pension benefits transferable to Social Security Institution ("SSI")*

Yapı ve Kredi Bankası Anonim Şirketi Mensupları Yardım ve Emekli Sandığı Vakfı ("the Fund") is a separate legal entity and a foundation recognised by an official decree, providing all qualified YKB employees with pension and post-retirement benefits. This scheme is funded through payments of both the employees and the employer as required by SSI Law Numbered 506 and are as follows:

	2009		2008		2007	
	Employer	Employee	Employer	Employee	Employer	Employee
	(%)	(%)	(%)	(%)	(%)	(%)
Retirement benefit contributions	12	9	13.5	9	13.5	9
Medical benefit contributions	7.5	5	6	5	6	5

The Group's obligation in respect of the Fund has been determined as the value of the payment that would need to be made to SSI to settle the obligation at the balance sheet date in accordance with the Temporary Article 20 of the "Law regarding the changes in Social Insurance and General Health Insurance Law and other related laws and regulations" ("New Law") (Note 24). The pension disclosures set out in Note 24 therefore reflect the actuarial parameters and results in accordance with the New Law provisions.

The pension benefits transferable to SSI are defined benefit plans and 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 income statement

(b) Reserve for employment termination benefits

Provision for employment termination benefits represents the present value of the estimated total provision of the future probable obligation of the Group arising from the retirement of the employees calculated in accordance with the Turkish Labour Law. In accordance with existing social legislation and Turkish Labour Law in Turkey, the Group is required to make lump-sum termination indemnities to each employee whose employment is terminated due to retirement or for reasons other than resignation or misconduct and who has completed at least one year of service. Provision is made for the present value of the defined benefit obligation calculated using the projected unit credit method. All actuarial gains and losses are recognised in the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

V. Provisions, contingent assets and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation. The discount rate reflects current market assessments of the time value of money and the risks specific to the liability. The discount rate shall be a pre-tax rate and shall not reflect risks for which future cash flow estimates have been adjusted.

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are not included in the consolidated financial statements and are treated as contingent assets or liabilities.

Uncertain tax positions

The Group's uncertain tax positions are reassessed by Management at every balance sheet date in accordance with IAS 37. Liabilities are recorded for income tax positions that are determined by Management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the balance sheet date and any known Court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on Management's best estimate of the expenditure required to settle the obligations at the balance sheet date.

W. Interest income and expense

Interest income and expense are recognised in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

X. Fee and commission income and expense

Fees and commissions are generally recognised in the income statement on an accrual basis over the life of the transaction to which they refer. Commission income and fees for certain banking services such as import and export-related services, issuance of letters of guarantee, clearing, brokerage and custody services are recorded as income at the time of effecting the transactions to which they relate.

Portfolio and other management, advisory and service fees are recognised based on the applicable service contracts.

Y. Share capital

(i) Share issue costs

Incremental costs directly attributable to the issue of new shares or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(ii) Share premium

When shares are issued, the excess of contributions received over the nominal value of the shares issued is recorded as share premium in equity.

(iii) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Company's shareholders. Dividends for the year that are declared after the balance sheet date are dealt with in the post balance sheet events note.

Z. Acceptances

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers, if the latter fails to meet their obligation. Acceptances are accounted for as off-balance sheet transactions.

AA. Other credit related commitments

In the normal course of business, the Group enters into other credit related commitments including loan commitments, letters of credit and guarantees. These are reported as off-balance sheet items at their notional amounts and are assessed using the same criteria as originated loans (Note 2.J). Specific provisions are therefore established when losses are considered probable and recorded as other provisions according to loan loss provision principles of IAS 39. The provision for credit related commitments also covers losses from the collective assessment where the commitments are grouped using the internal models developed by the Group stemming from the classification of credit related commitments into risk rating classes based on the observation of a series of parameters related to the borrower and/or to the utilisation of the loan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

AB. Offsetting

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

AC. Cash and cash equivalents

The cash and cash equivalents comprise balances with less than 90 days' maturity including cash and balances with the central banks excluding reserve requirements and loans and advances to banks (Note 5).

AD. Insurance business

The insurance contracts are those contracts that transfer insurance risk. The insurance contracts protect the insured against the adverse economic consequences of loss event under the terms and conditions stipulated in the insurance policy.

The insurance contracts produced by the Group are mainly in fire, marine, accident, engineering and health in non-life branches and group and personal life, and personal accident agreements which are classified under the groups of risk and saving policies in life branches. The highest written premium of the Group is within the health branch.

Non-life insurance contracts

The insurance agreements written in health branch consist of guarantees for the claims regarding the insuree's identification, diagnosis, and treatment. Fire insurance policies cover mainly fire and theft guarantees for household and business premises, as well as additional guarantees such as indemnity, rent deficiency, glass, and loss of profit. Marine insurance (hull, motor or air transport vehicles) covers goods in transit. The Group also writes engineering policies with engineering, assembly, machinery breakdown, electronic equipment, loss of profit coverage, and policies in accident branch including comprehensive insurance for motor vehicles, traffic, third party liability, and breach of trust guarantees. Furthermore, there are agriculture insurance contracts produced by Tarım Sigortaları Havuz İşletmesi A.Ş. and compulsory earthquake insurance contracts produced by Doğal Afet Sigortaları Kurumu.

Life insurance contracts

a) Risk Policies:

Annual Life

Annual Life Insurance provides guarantee against the risks that the policyholder may encounter for a year. This insurance covers all risks that the policyholder can be exposed to by providing natural death coverage along with the additional coverage such as accidental death, disability, critical disease, accidental death in public transportation during the policy term. Annual life contracts do not provide surrender and policy loan rights, have not any paid up value, and can be issued for Groups and Individuals. The age limit is between 18 and 65, premium amount changes according to the risk assessment based on age, sex and health risk assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Credit Life

Credit Life Insurance, provides guarantee against the risks that the policyholder may encounter (death) throughout the period the credit is used. In the event of such a negative situation the credit debt is paid by the credit life insurance and therefore the debtor and the family of the credit holder are financially protected. Credit Life Insurance products are risk products that do not have any paid up value. The age limit is between 18 and 70 (the period and age cannot exceed 70) premium amount changes according to the risk assessment based on age, sex and health risk assessment. Insurance guarantees can be arranged as fixed or diminishing and premium payments are made at the beginning of the insurance.

b) Saving Policies:

Saving Life Insurance

Saving Life insurance products are investment policies of minimum 10 years. The savings at the end of a minimum period of 10 years are paid to the policyholder. These insurances cover death risks as well as additional risk such as disability, critical disease, accidental death, and accidental death in public transportation. Guaranteed amounts are determined as multiple amounts of the monthly insurance premium. The age limit is usually between 18 and 65, and the premium amounts changes according to the risk assessment based on age, sex and health risk assessment. If the return on saving policies exceeds the technical interest guaranteed, the policyholders benefit from the profit share. In accordance with the insurance regulation in force, the Group classifies and accounts for all saving policies as insurance contracts.

c) Annuity Products:

The Group offers lifelong annuity products and annuity products with guaranteed periods for beneficiary clients willing to receive payments periodically instead of a bulk compensatory payment. The annual income calculation for lifelong products are made by considering the real age and for annuity products with guaranteed periods, the insurance period is taken into account during the calculation as there is no probability of life or death.

(i) Premium Income

Premium income is recognised in the period over which insurance coverage is provided to the policyholder. Premiums received relating to future periods are deferred on a daily pro-rated basis and only recognised in the income statement when earned.

Reinsurance premiums are recognised on the same basis as the related premium income.

(ii) Claims

A provision is made for the estimated cost of claims notified but not settled and incurred but not reported claims ("IBNR") claims at the balance sheet date, less amounts recoverable from reinsurers.

The provision for the cost of claims notified but not settled is based upon a best estimate of the cost of settling each outstanding claim, on a case by case basis, after taking into account all known facts, recent past experience and assumptions about the future development of the outstanding cases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(iii) Unearned Premium Reserve ("UPR")

Unearned premiums are those portions of the premiums underwritten during the year that relate to the period of risk subsequent to the balance sheet date for all policies other than life policies with more than one year of maturity. The unearned premium reserve set aside has been computed on a daily pro-rated basis except marine branch. For marine policies, UPR is calculated as 50% of the last three months' premiums.

An unearned premium reserve is calculated on a daily basis for all policies in force as of 31 December 2009 for unearned portions of premiums written, except for marine. For marine policies with an uncertain end date, unearned premium reserve is calculated as 50% of the premiums written in the last three months.

(iv) Deferred Acquisition Costs ("DAC")

The direct commission expenses incurred in acquiring the unearned portion of premiums are recorded on gross and a policy by policy basis and are recognised in the income statement on the same basis.

The direct commission expenses incurred in acquiring pension contracts, which are treated as investment contracts, are deferred in the balance sheet under other assets, to the extent that the Group's subsidiary has secured revenues under these contracts. Such deferred acquisition costs are amortised over 18 months and tested for recoverability at each balance sheet date.

(v) Life Mathematical Reserves

The life mathematical reserves have been calculated on the life policies in force at year-end by using actuarial assumptions and formulas approved by the Prime Ministry Undersecretariat of Treasury ("Treasury").

(vi) Life Profit Share Reserve

Life profit share is the portion of investment income allocated to life policy holders from income generated due to premiums of life policies with a savings clause. Such policies normally have at least 10 years of maturity and policy holders are entitled to receive a profit share after 3 years from the date of policy issuance. Profit share is calculated on an individual policy basis. Investment income presented within income from insurance operations represents income generated through utilisation of funds associated with mathematical reserves in various investment tools whereas the provision for profit share represents the amount allocated to policy holders out of investment income after certain deductions.

(vii) Provision for Unexpired Risks:

Adequacy of UPR is tested by considering net incurred claims to net earned premiums ratio for the last calendar year based on existing contracts on branch basis. If the calculated loss ratio is higher than 95%, provision for unexpired risk is accounted for by multiplying net unearned premium reserve with the portion exceeding 95%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(viii) Liability Adequacy Test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. Any deficiency is immediately charged to profit or loss. The Group has no additional liability with respect to the life insurance portfolio of its subsidiary since in its revised tariffs the subsidiary changed the basis of its life profit share calculation to guarantee an annual return of the lower of the guaranteed rate or the annual inflation rate.

(ix) Liability to Pension Contract holders for Loyalty Reward

The Group's subsidiary also calculates a liability for its pension contracts, recorded under other liabilities, which represent the present value of the entrance fees received from pension contract holders, since the Group's subsidiary has an unconditional commitment to return such entrance fees, adjusted for inflation, back to the contract holders when they meet certain loyalty criteria that is when they remain invested in the pension funds under the management of the subsidiary for 10 years. Loyalty criteria is "till retirement" instead of "10 years" for the contracts issued after 9 August 2008. The present value of such liability is calculated using the long term real interest rate of 5.92% and the persistency rate of pension contract holders.

AE. Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Board of Directors of the Bank acts as its chief operating decision maker. All transactions between business segments are conducted on an arm's length basis. Income and expenses directly associated with each segment are included in determining business segment performance.

A business segment should be identified as a reportable segment if a majority of its revenue is earned from sales to external customers and if its revenue from sales to external customers and from transactions with other segments is 10% or more of the total revenue, external and internal, of all segments; or its segment result, whether profit or loss, is 10% or more of the combined result of all segments in profit or the combined result of all segments in loss, whichever is the greater in absolute amount; or its assets are 10% or more of the total assets of all segments.

The Group manages its business through five strategic business units: Retail Banking, Corporate Banking, Private Banking and Wealth Management, Credit Cards and Foreign Operations.

AF. Earnings per share

Earnings per share disclosed in the consolidated income statement are determined by dividing net income by the weighted average number of shares outstanding during the year concerned in Note 35.

AG. Comparatives

Comparative figures are reclassified, where necessary, to conform to changes in presentation of the 31 December 2009 consolidated financial statements. Accordingly, for the purpose of consistent presentation, certain figures in the previously audited consolidated statement of cash flows are reclassified.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Held-to-maturity financial assets. Management applies judgement in assessing whether financial assets can be categorised as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than for certain specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost. If the entire class of held-to-maturity investments is tainted, the carrying amount would decrease by TL663,481 thousand (2008: increase by TL223,331 thousand; 2007: increase by TL181,042 thousand), with a corresponding entry in the fair value reserve in equity (Note 4.E).

Impairment of available for-sale equity investments. The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. Impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financing cash flows. Had all the declines in fair value below cost been considered significant or prolonged, the Group would not suffer any additional loss, being the transfer of the total debit balance in the fair value reserve to profit or loss.

Impairment losses on loans and advances. The methodology and assumptions used for estimating both the amount and timing of future cash flows from a portfolio of loans are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the present value of estimated cash flows differ by +/- 5% the provision would be estimated TL124,489 thousand (2008: TL58,239 thousand; 2007: TL71,833 thousand) higher or lower. The Group calculated IBNR provision which combines the Basel II concept of expected loss with intrinsic elements such as loss detection period and expert views. As a result of the studies performed, the Bank revised the IBNR provisions by considering new loss detection periods, which were formerly set as 1 year, differentiating them by segment/type of products. To the extent that loss detection period decreases by 3 months, the IBNR provision would be estimated around TL216,000 thousand (2008: TL164,000 thousand; 2007: TL140,000 thousand) lower.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 3 - CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

Finance leases and derecognition of financial assets. Management applies judgement to determine if substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to counterparties, in particular which risks and rewards are the most significant and what constitutes substantially all risks and rewards.

Special Purpose Entities. Judgement is also required to determine whether the substance of the relationship between the Group and a special purpose entity indicates that the special purpose entity is controlled by the Group.

Tax legislation. Turkish tax, currency and customs legislation is subject to varying interpretations as disclosed in Note 22.

Pension Fund. The Group determines the present value of funded benefit obligations in accordance with New Law by using several critical actuarial assumptions, including the discount rate, mortality rate, and medical costs as disclosed in Note 24. This approach recognises the obligations of the Group to make payments to SSI in respect of the benefits which will be transferred to SSI rather than an obligation to make benefit payments to individuals.

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

Goodwill. Recoverable amount of goodwill was estimated based on value in use calculation as disclosed in Note 13.

Insurance risks. Technical profit in the insurance business of the Group is subject is estimated based on the loss ratio as disclosed in Note 25.

NOTE 4 - FINANCIAL RISK MANAGEMENT

Group's risk management functions are independent from the commercial operations along with committees such as Asset and Liability Committee ("ALCO") and the other individual risk committees covering credit, market and operational risks and are an integral part of ensuring Group's fulfilment of requirements stipulated by the new Banking Law in a manner consistent with shareholders' risk appetites. The risk management function is responsible for: (1) maximizing returns on invested capital and maintaining sustainable growth of profitability (2) monitoring trends in risk exposures and communicating irregularities promptly to senior management (3) monitoring asset and liability profiles for rebalancing actions on a timely basis (4) identifying and classifying the risk structures of products, processes and services (5) developing and validating the credit rating/scoring models and (6) ensuring compliance with Basel II requirements and Turkish Banking Law.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

A. Credit risk

The Group manages credit risk through the following implementations:

- (a) establishment of credit risk policy involving credit risk strategies, implementation of credit policy guidelines, definition of the optimum composition of the overall loan portfolio, credit risk budget and identification of risk positions within legal and group wide limitations;
- (b) monitoring and measuring the evolution of credit risk for all segments, (i.e. by industry, sector, geographical area etc.), presentation of the strategic credit risk related reports to senior management, including evolution of loan provisioning and comparison with peer banks;
- (c) obtaining continuity of operative methodologies (e.g. borrower evaluation, loan and collateral classifications, monitoring and recovery principles) for credit processes (underwriting, monitoring and work-out) and related tools (including testing of new functionalities);
- (d) evaluation of new credit products, changes to existing ones and monitoring them so as to ensure that their profile is coherent with the risk appetite and reputation risk of the Bank (e.g. on the basis of minimum requirements in terms of granting, monitoring, workout procedures, pilot phase definition, regular performance measurement, sustainable and sound introduction and growth criteria, etc.);
- (e) enhancement and monitoring of the rating and scoring models (probability of default (“PD”), exposure at default (“EAD”) and loss given default (“LGD”)) as well as pricing models for all segments. This includes:
 - methodological documentation,
 - technical specification for IT implementation and support to local use,
 - definition of process guidelines regarding models usage and use tests,
 - validation,
 - definition of rating override process,
 - definition of credit data warehouse,
 - cooperation with UniCredit Group for internal validation and credit risk Value-at-Risk (“VaR”) model development and calculation.
- (f) preparation of credit risk budget in line with predefined lending targets,
- (g) calculation of Cost of Risk and related provisions by segments to better assess the riskiness of loan portfolio and maintain the asset quality,
- (h) definition of provisioning methodologies in line with BRSA and IFRS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

Credit policies reflect the general credit risk principles to be followed throughout YKB's lending activities and the related strategies and goals, as well as shareholders' risk appetites. The credit policy guideline is prepared by YKB's credit risk management department and approved by the Board of Directors.

Bank Rating System:

Since 2002, YKB has employed an internal rating model developed together with Oliver Wyman & Company for the credit risk management of its corporate clients. This system was back tested with UniCredit, and is subject to recalibration through changes in customer composition.

Integrated with the underwriting process, Bank's internal rating model runs five financial and eight qualitative criteria and assigns a probability of default for each borrower, classifying them under a scale of 17 grades examining both quantitative (balance sheet, income and cash flow analysis, collaterals' value) and qualitative information (management assessment, competitive position, sector performance and environmental factors). This function enables to measure the probability of default at single client level. The outcomes of the grading system reflect the riskiness of each rated customer, and IBNR provisions are set aside in accordance with performing client's rating. In other words, the Bank employs client based risk management methodology for the calculation of cost of credit risk.

The Bank's rating tool concentration by risk classes as of 31 December 2009, 2008 and 2007 is as follows:

	Rating class ⁽¹⁾	Concentration level (%)		
		2009	2008	2007
Above average	1-4	30.3	32.7	20.2
Average	5+ - 6	47.9	48.3	53.6
Below average	7+ - 9	21.8	19.0	26.2

(1) For corporate and commercial clients only

Scoring models are also used throughout the granting and monitoring/collection processes for consumer loans and credit cards segment. These models are to be developed and updated in accordance with changes in customer behaviour.

A new application scorecard has also been developed to evaluate SME clients. The model is highly predictive and classifies clients in 23 rating classes.

The above-mentioned methodologies and processes dedicated to different market segments (usage of different credit evaluation tools per segments) gives YKB the ability to measure, manage and monitor credit risk in a more accurate way.

Taking into consideration of the scoring models, the Group classifies its credit portfolio into the following groups:

Group's Rating	<u>Loans and advances %</u>	<u>Provision Coverage %</u>
1. Performing loans - neither past due nor impaired	88.03	1.54
2. Watch-listed - individually impaired	5.71	8.03
3. Legal follow-up - individually impaired	6.26	80.62
	100.00	6.86

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

The details of the loans and advances past due but not impaired which classified under the performing loans are as follows;

	31 December 2009				31 December 2008				31 December 2007			
	Past due Up to 30 days	Past due 30 - 60 days	Past due 60 - 90 days	Total	Past due Up to 30 days	Past due 30 - 60 days	Past due 60 - 90 days	Total	Past due Up to 30 days	Past due 30 - 60 days	Past due 60 - 90 days	Total
Corporate	770,430	67,761	1,414,857	2,253,048	520,891	165,170	40,346	726,407	105,090	60,934	53,486	219,510
Consumer	451,145	197,350	164,609	813,104	388,553	197,616	52,997	639,166	120,931	70,997	24,278	216,206
Credit cards	599,665	190,055	221,445	1,011,165	496,932	275,635	119,273	891,840	252,597	101,323	8,316	362,236
Leasing	10,398	1,006	1,205	12,609	12,620	9,748	598	22,966	7,834	6,759	8,351	22,944
	1,831,638	456,172	1,802,116	4,089,926	1,418,996	648,169	213,214	2,280,379	486,452	240,013	94,431	820,896

Loans and Advances Rescheduled:

Restructuring activities include extended and/or rescheduled payment arrangements, approved external management plans, arrangement of terms of loan such as modification and deferral of payments, interest rate, foreign exchange ("FX") type, collateral structure, additional loan etc, there can also be alternatives of granting additional loan or sale of collaterals, sale of debts, and sale of company.

Restructuring may be applied for watch-listed loans (loans which are under close monitoring, classification as watch is not based on past due days) or loans in nonperforming loan accounts. If restructuring is applied for a watch-listed loan, that loan will stay in performing loan accounts but its terms (FX rate, payment dates, interest rate etc) may be changed.

On the other hand, if restructuring is applied for loans in nonperforming loan accounts that loan will continue to stay at least 6 more months in nonperforming loan accounts and it may be transferred to specified "restructured loan accounts" when the both of the conditions of at least 15% collection of loan amount and at least staying 6 months in nonperforming loan accounts. If an additional loan was granted during restructuring, then at least 15% collection necessity becomes at least 30% of total (existing + additional loan). As of 31 December 2009, the total amount of restructured loans included in legal follow up during the year is TL103,067 thousand (2008: TL41,986 thousand; 2007: TL185,986 thousand)

Restructuring policies and practices are consistent with the "Communiqué Related to Principles and Procedures on Determining the Qualifications of Banks' Loans and Other Receivables and the Provision for These Loans and Other Receivables" published by BRSA.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

Maximum exposure to credit risk

	2009	2008	2007
Credit risk exposures relating to on-balance sheet assets:			
Loans and advances to banks	3,796,084	3,310,548	1,607,523
Loans and advances to customers			
- Credit cards	7,261,231	7,490,155	6,501,088
- Consumer	7,061,502	6,341,199	4,124,581
- Corporate	24,225,811	24,905,967	18,089,232
- Leasing	2,169,054	2,692,154	2,326,437
- Factoring	1,419,999	1,040,508	804,993
Financial assets held for trading:			
- Debt securities	326,960	378,877	296,304
- Derivative financial instruments	617,704	433,651	48,667
Hedging derivatives	128,631	-	1,684
Investment securities - debt securities			
- Available-for-sale	2,002,643	1,812,474	958,948
- Held-to-maturity	13,318,719	12,705,781	13,003,287
Other assets	1,149,887	989,504	1,039,568
Credit risk exposures relating to off-balance sheet items:			
Credit related commitments	16,034,976	16,143,907	13,226,182
Other	551,079	656,084	789,369

The above table represent a worse case scenario of credit risk exposure in the absence of any collateral or credit enhancements.

Industry sectors

The Group uses BRSA definitions for the economic sectors in order to be able to make comparisons with the banking sector wide figures. These definitions are also in line with NACE (European Classification of Economic Activities) classifications which are used within the EU. Through the Credit Policy, the Board of Directors sets the sectoral limits on lending, and these limits can only be altered by a decision from the Board of Directors. According to YKB's credit policy, each individual sector should not exceed the targeted level of 10% on the overall corporate portfolio. The sector concentration is accordingly monitored and reported on a regular basis. Particular attention is given to some sectors which are considered as "low performers" in terms of high non-performing loan ("NPL") levels. Macroeconomic conditions, NPL levels, expectations about sectors and UCI group policies are taken into consideration in setting and altering the limits. Sectoral classification is defined in terms of the borrower's activity area, not based on collaterals.

	Financial Institutions	Manufacturing	Real Estate	Wholesale and retail trade	Public Sector	Other Industries	Individuals	Total
Loans and advances to banks	3,796,084	-	-	-	-	-	-	3,796,084
Loans and advances to customers	1,473,963	9,556,492	365,798	1,989,678	1,234,148	13,194,785	14,322,733	42,137,597
Trading securities – debt securities	53,081	-	-	-	273,879	-	-	326,960
Derivative financial instruments	541,285	58,091	-	-	-	61	18,267	617,704
Hedging derivatives	128,631	-	-	-	-	-	-	128,631
Investment securities – debt securities	542,959	8,865	-	3,188	14,762,508	3,842	-	15,321,362
Other assets	494,474	-	-	-	26,782	548,693	79,938	1,149,887
As of 31 December 2009	7,030,477	9,623,448	365,798	1,992,866	16,297,317	13,747,381	14,420,938	63,478,225
As of 31 December 2008	5,371,448	10,451,083	266,600	2,121,419	15,889,129	14,089,691	13,911,448	62,100,818
As of 31 December 2007	2,893,613	8,191,558	280,298	1,794,057	14,954,043	9,995,239	10,693,504	48,802,312
Letter of guarantees	1,031,709	4,755,764	140,436	1,007,355	-	6,080,192	281,285	13,296,741
Letter of credits	152,865	2,131,693	-	150,107	-	303,105	465	2,738,235
Acceptance credits	9,743	125,053	-	2,254	-	14,619	-	151,669
Other commitments and contingencies	7,054	222,633	-	33,050	-	136,643	30	399,410
As of 31 December 2009	1,201,371	7,235,143	140,436	1,192,766	-	6,534,559	281,780	16,586,055
As of 31 December 2008	1,071,721	7,005,125	255,271	1,262,671	-	6,944,830	260,373	16,799,991

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

Geographical sectors

Geographical concentrations of total assets:

	Turkey	Italy	Other EU	Other	Total
Cash and balances with central banks	3,975,071	-	197,395	56,869	4,229,335
Loans and advances to banks	2,569,693	1,418	974,524	250,449	3,796,084
Financial assets held for trading					
- Trading securities	365,733	-	190	-	365,923
- Trading derivatives	91,505	243	521,481	4,475	617,704
Hedging derivatives	-	-	115,706	12,925	128,631
Loans and advances to customers, net					
- Credit cards	7,260,990	-	-	241	7,261,231
- Consumer	7,049,260	-	-	12,242	7,061,502
- Corporate	23,209,899	10,908	291,857	713,147	24,225,811
- Leasing	2,132,349	-	23,825	12,880	2,169,054
- Factoring	1,419,999	-	-	-	1,419,999
Investment securities					
- Available-for-sale	1,906,019	-	12,047	136,190	2,054,256
- Held-to-maturity	13,153,289	-	152,042	13,388	13,318,719
Investment in associate	-	-	-	58,939	58,939
Goodwill	1,023,528	-	-	-	1,023,528
Other intangible assets	216,330	-	-	111	216,441
Property and equipment	1,139,253	-	615	16,315	1,156,183
Deferred income tax assets	767,573	-	541	2,970	771,084
Other assets	1,121,722	1,604	20,218	6,343	1,149,887
As of 31 December 2009	67,402,213	14,173	2,310,441	1,297,484	71,024,311
As of 31 December 2008	65,759,628	221,142	1,929,355	1,983,169	69,893,294
As of 31 December 2007	53,406,255	69,556	816,370	1,267,239	55,559,420
Letter of guarantees	11,982,993	220,038	508,867	584,843	13,296,741
Letter of credits	2,330,580	8,807	52,972	345,876	2,738,235
Acceptance credits	148,894	-	2,775	-	151,669
Other commitments and contingencies	399,410	-	-	-	399,410
As of 31 December 2009	14,861,877	228,845	564,614	930,719	16,586,055
As of 31 December 2008	14,948,880	233,525	859,743	757,843	16,799,991
As of 31 December 2007	12,743,114	153,833	431,133	687,471	14,015,551

Rating of debt securities:

Moody's credit rating model	2009		2008		2007	
	Trading securities	Investment securities	Trading securities	Investment securities	Trading securities	Investment securities
Financial assets:						
Aaa	-	90,523	-	36,158	-	69,549
Aa	190	28,618	-	164,852	-	63,623
A	-	-	-	-	-	-
Baa	-	100,901	35,364	62,641	-	86,760
Ba2 ⁽¹⁾	273,878	13,929,689	-	-	-	-
Ba3	-	1,117,035	300,308	14,176,139	254,215	13,638,286
Unrated	52,892	54,596	43,205	78,465	42,089	104,017
Total	326,960	15,321,362	378,877	14,518,255	296,304	13,962,235

⁽¹⁾ Securities consist of the Republic of Turkey government bonds and treasury bills, Ba3 rated items in 2009 consist of corporate bonds with individual rating.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

B. Market risk

As a commercial Group, the focus is serving the financial needs of the customers, thereby generating exposure to interest rate, liquidity and foreign exchange risk.

The Market Risk Policy of the Group clearly identifies risk-management guidelines. According to the Market Risk Policy, market risk is managed depending on the treatment of the banking book and trading book. The banking book consists of all assets and liabilities arising from commercial activities, sensitive to interest rate and foreign exchange movements. The trading book, on the other hand, includes the positions held for trading, client servicing purposes or for keeping the market maker status.

The trading activity of YKB is realised mainly FX and Securities, which is tolerated within predefined limits. Risk limits are set on an intra-day and end-of-day position basis, as well as on Value at Risk, monitored on a daily basis.

The banking book interest rate risk is measured through the economic value sensitivity method, which implies the potential change in fair value of the interest rate positions resulting from a parallel upward/downward shift of the yield curve. The overall sensitivity is supposed to be within 20% of the Core Tier 1 Capital, as also outlined in Basel II. Interest rate swaps are utilised to mitigate the banking book interest rate risk resulting from the maturity mismatch. Besides Economic Value Sensitivity, an overall Value at Risk, covering all balance sheet items and Basis Point Value ("BPV") methods are used to measure the structural interest rate risk.

Liquidity risk is closely monitored within the Group and particular attention is paid to keeping enough cash and cash-equivalent instruments to fund increases in assets or unexpected decreases in liabilities, and to meet legal requirements, thereby optimising the cost of carrying any excess liquidity. The Liquidity Policy provides guidelines to quantify the liquidity position and achieve a sound balance between profitability and liquidity needs. Liquidity risk limits are set both for short-term and structural (long-term) liquidity positions.

Derivative instruments are limited to financial instruments such as forwards, swaps, futures and options in the foreign exchange and capital markets. These transactions are considered as effective economic hedges under the Group's risk management policies. However, since they do not qualify for hedge accounting under the specific provisions of IAS 39, they are treated as derivatives held for trading.

As part of the management of market risk, the Group undertakes various hedging strategies. The Group also enters into cross currency interest rate swaps to match the interest rate risk associated with the fixed-rate long-term loans.

(i) Fair value hedges

Starting from 1 March 2009, the Group has hedged the possible fair value effects of changes in market interest rates on part of its fixed interest TL mortgage and car loan portfolios using cross-currency interest rate swaps. The net fair value of hedging instruments at 31 December 2009 is a liability amounting to TL228,982 thousand. At 31 December 2009, the fair value difference of the hedging instruments starting from the inception date is TL147,649 thousand and the fair value difference of the hedged item is TL140,137 thousand (Note 9).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

(ii) Net investment hedges

The Group hedges part of the currency translation risk of net investments in foreign operations through currency borrowings.

The Group's Euro-denominated borrowing is designated as a hedge of the net investment in the Group's some EUR denominated subsidiaries. The total amount of the borrowing designated as a hedge of the net investment at 31 December 2009 is EUR191 million (2008: EUR169 million; 2007: EUR96 million). The foreign exchange loss of TL2,353 thousand (2008: TL57,440 thousand loss; 2007: TL11,249 thousand gain), net of tax, on translation of the borrowing to TL at the balance sheet date is recognised in "other reserves" in equity.

The major measurement techniques used to measure and control market risk are outlined below.

(a) *Value-at-risk*

The Group applies a VaR methodology to its trading portfolios, to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The VaR limits are set by the Board of Directors and revised every year according to the budget and strategic plan of the Group. VaR limit compliance is monitored by Risk Management on a daily basis.

VaR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the "maximum" amount the Group might lose, but only to a certain level of confidence (99%). There is therefore a specified statistical probability (1%) that actual loss could be greater than the VaR estimate. The VaR model of the Group assumes a one-day "holding period" until positions can be closed. The Group's assessment of past movements is based on data for the past 500 days. The Group applies these historical changes in rates, prices, indices, etc. directly to its current positions - a method known as historical simulation. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/factors used in the VaR calculation (back testing). The use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

As VaR constitutes an integral part of the Group's market-risk control regime, VaR limits are established by the Board of Directors annually for all trading portfolio operations. For investment positions, as for the held-to-maturity portfolio, risk appetite limits are applied. (VaR/Nominal Positions). Actual exposure against limits, together with a consolidated group-wide VaR, is reviewed daily by Risk Management. Average daily VaR for the trading portfolio of the Group for the twelve months period is TL2,526 thousand in 2009.

The quality of the VaR model is continuously monitored by back-testing the VaR results for trading books. All back-testing exceptions are investigated, and results are reported to the monthly ALCO meetings.

(a) Group VaR by risk type

	12 months to Reporting Date (2009)		
	Average	High	Low
Foreign exchange risk	622	2,260	162
Interest rate risk of securities	153,970	247,332	86,478
Equities risk	-	-	-
Total VaR	159,389	246,084	94,778

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

12 months to Reporting Date (2008)			
	<u>Average</u>	<u>High</u>	<u>Low</u>
Foreign exchange risk	310	752	94
Interest rate risk of securities	138,129	363,296	75,249
Equities risk	-	-	-
Total VaR	134,121	404,636	73,141
12 months to Reporting Date (2007)			
	<u>Average</u>	<u>High</u>	<u>Low</u>
Foreign exchange risk	1,179	4,113	366
Interest rate risk of securities	69,623	154,574	3,094
Equities risk	-	-	-
Total VaR	69,386	155,513	3,391
(b) Trading portfolio VaR by risk type			
12 months to Reporting Date (2009)			
	<u>Average</u>	<u>High</u>	<u>Low</u>
Foreign exchange risk	622	2,260	162
Interest rate risk of trading securities	1,904	4,344	333
Equities risk	-	-	-
Total VaR	2,526	6,604	495
12 months to Reporting Date (2008)			
	<u>Average</u>	<u>High</u>	<u>Low</u>
Foreign exchange risk	310	752	94
Interest rate risk of trading securities	1,919	7,798	321
Equities risk	-	-	-
Total VaR	2,229	8,550	415
12 months to Reporting Date (2007)			
	<u>Average</u>	<u>High</u>	<u>Low</u>
Foreign exchange risk	1,179	4,113	366
Interest rate risk of trading securities	2,021	2,538	1,587
Equities risk	-	-	-
Total VaR	3,200	6,651	1,953
(c) Non-trading portfolio VaR by risk type			
12 months to Reporting Date (2009)			
	<u>Average</u>	<u>High</u>	<u>Low</u>
Foreign exchange risk	-	-	-
Interest rate risk of investment securities	152,522	242,998	91,231
Equities risk	-	-	-
Total VaR	152,522	242,998	91,231
12 months to Reporting Date (2008)			
	<u>Average</u>	<u>High</u>	<u>Low</u>
Foreign exchange risk	-	-	-
Interest rate risk of investment securities	123,595	399,821	62,455
Equities risk	-	-	-
Total VaR	123,595	399,821	62,455
12 months to Reporting Date (2007)			
	<u>Average</u>	<u>High</u>	<u>Low</u>
Foreign exchange risk	-	-	-
Interest rate risk of trading securities	67,602	152,036	1,507
Equities risk	-	-	-
Total VaR	67,602	152,036	1,507

(b) Stress tests

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by Risk Management, also indicated in the Market Risk Policy of the Group, include: FX and Interest rate stress testing, where stress movements are applied to the FX position and to the banking Book. The results of the stress tests are reviewed by ALCO.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

i) Foreign exchange risk

Foreign exchange exposure is the result of the mismatch of foreign currency denominated assets and liabilities (including foreign currency indexed ones) together with exposures resulting from off-balance sheet foreign exchange derivative instruments. The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The limits are set by Board of Directors on the level of exposure in aggregate for both overnight and intra-day positions, which are monitored on a daily basis.

The table below summarizes the Group's exposure to foreign currency exchange rate risk at 31 December 2009, 2008 and 2007. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by currency. The off-balance sheet gap represents the difference between the notional amounts of purchase and sale foreign currency derivative financial instruments.

2009

	Foreign currency			Total	TL	Total
	US\$	EUR	Other			
Assets						
Cash and balances with central banks	88,474	2,306,349	50,239	2,445,062	1,784,273	4,229,335
Loans and advances to banks	764,160	827,321	78,069	1,669,550	2,126,534	3,796,084
Financial assets held for trading						
- Trading securities	44,227	65,365	-	109,592	256,331	365,923
- Trading derivatives	-	-	-	-	617,704	617,704
Loans and advances to customers ⁽¹⁾	11,111,317	6,369,968	586,277	18,067,562	24,070,035	42,137,597
Hedging derivatives	-	-	-	-	128,631	128,631
Investment securities						
- Available-for-sale ⁽²⁾	937,685	70,587	81,434	1,089,706	964,550	2,054,256
- Held-to-maturity	5,986,127	1,275,991	504	7,262,622	6,056,097	13,318,719
Investment in associates ⁽²⁾	-	-	58,939	58,939	-	58,939
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	111	111	216,330	216,441
Property and equipment	-	615	16,315	16,930	1,139,253	1,156,183
Deferred income tax assets	-	541	2,970	3,511	767,573	771,084
Other assets	143,529	170,380	192,775	506,684	643,203	1,149,887
Total assets	19,075,519	11,087,117	1,067,633	31,230,269	39,794,042	71,024,311
Liabilities						
Deposits from banks	1,199,071	616,659	196,714	2,012,444	419,735	2,432,179
Due to customers	11,504,089	6,994,241	740,414	19,238,744	22,942,642	42,181,386
Other borrowed funds	1,512,248	5,658,712	43,017	7,213,977	1,417,159	8,631,136
Debt securities in issue	1,016,282	728,196	-	1,744,478	-	1,744,478
Derivative financial instruments	-	-	-	-	268,515	268,515
Financial liabilities designated at fair value	-	-	-	-	-	-
Current income taxes payable	-	653	-	653	68,383	69,036
Deferred income tax liabilities	-	-	1,650	1,650	286,644	288,294
Hedging derivatives	-	-	-	-	357,613	357,613
Other provisions	-	7,012	-	7,012	390,859	397,871
Retirement benefit obligations	-	1,938	-	1,938	962,603	964,541
Insurance technical reserves	264,935	55,513	-	320,448	546,356	866,804
Other liabilities	349,144	242,366	19,515	611,025	3,505,030	4,116,055
Total liabilities	15,845,769	14,305,290	1,001,310	31,152,369	31,165,539	62,317,908
Net balance sheet position	3,229,750	(3,218,173)	66,323	77,900	8,628,503	8,706,403
Off-balance sheet derivative instruments net notional position	(3,092,881)	3,385,106	112,263	404,488	4,072,515	4,477,003
Net foreign currency position	136,869	166,933	178,586	482,388	12,701,018	13,183,406

- (1) Collective impairment allowance of TL352,501 thousand calculated on foreign currency denominated loans is presented as TL balance in the above currency position table.
- (2) Had the investment in associate and AFS equity instruments were excluded from the foreign currency position table as of 31 December 2009, the net foreign currency position of the Group would decrease from TL482,388 thousand to TL421,543 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

2008

	Foreign currency				
	US\$	EUR	Other	Total	TL
Assets					
Cash and balances with central banks	89,623	2,696,534	76,159	2,862,316	1,854,700
Loans and advances to banks	1,225,854	1,584,284	247,183	3,057,321	253,227
Financial assets held for trading					
- Trading securities	115,548	82,541	-	198,089	198,375
- Trading derivatives	-	-	-	-	433,651
Loans and advances to customers ⁽¹⁾	11,182,602	6,555,605	593,652	18,331,859	24,138,124
Hedging derivatives	-	-	-	-	-
Investment securities					
- Available-for-sale ⁽²⁾	804,572	87,198	137,463	1,029,233	856,858
- Held-to-maturity	5,655,879	1,162,793	4,042	6,822,714	5,883,067
Investment in associates ⁽²⁾	-	-	55,593	55,593	-
Goodwill	-	-	-	-	1,023,528
Other intangible assets	-	-	124	124	179,573
Property and equipment	-	806	14,959	15,765	1,199,823
Deferred income tax assets	-	5,066	2,649	7,715	502,135
Other assets	196,261	111,680	77,745	385,686	603,818
Total assets	19,270,339	12,286,507	1,209,569	32,766,415	37,126,879
Liabilities					
Deposits from banks	320,128	405,518	146,985	872,631	210,210
Due to customers	12,343,831	6,050,331	601,666	18,995,828	24,730,019
Other borrowed funds	2,974,763	5,050,085	17,237	8,042,085	1,610,353
Debt securities in issue	1,095,020	871,278	-	1,966,298	-
Derivative financial instruments	-	-	-	-	220,782
Financial liabilities designated at fair value	66,434	-	-	66,434	-
Current income taxes payable	-	904	642	1,546	6,793
Deferred income tax liabilities	-	4,431	1,989	6,420	195,502
Hedging derivatives	-	-	-	-	-
Other provisions	29,471	-	-	29,471	347,764
Retirement benefit obligations	-	1,696	-	1,696	867,559
Insurance technical reserves	262,248	69,493	-	331,741	503,459
Other liabilities	190,331	472,187	19,626	682,144	3,165,544
Total liabilities	17,282,226	12,925,923	788,145	30,996,294	31,857,985
Net balance sheet position	1,988,113	(639,416)	421,424	1,770,121	5,268,894
Off-balance sheet derivative instruments net notional position	(1,992,079)	864,709	(256,540)	(1,383,910)	1,779,666
Net foreign currency position	(3,966)	225,293	164,884	386,211	7,048,560

- (1) Collective impairment allowance of TL249,124 thousand calculated on foreign currency denominated loans is presented as TL balance in the above currency position table.
- (2) Had the investment in associate and AFS equity instruments were excluded from the foreign currency position table as of 31 December 2008, the net foreign currency position of the Group would decrease from TL386,211 thousand to TL308,787 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

2007

	Foreign currency				TL	Total
	US\$	EUR	Other	Total		
Assets						
Cash and balances with central banks	86,990	1,984,033	28,771	2,099,794	1,640,594	3,740,388
Loans and advances to banks	761,110	599,222	61,486	1,421,818	185,705	1,607,523
Financial assets held for trading						
- Trading securities	120,365	59,457	559	180,381	135,149	315,530
- Trading derivatives	-	-	-	-	48,667	48,667
Loans and advances to customers ⁽¹⁾	7,265,901	4,788,802	297,662	12,352,365	19,493,966	31,846,331
Hedging derivatives	-	-	-	-	1,684	1,684
Investment securities						
- Available-for-sale ⁽²⁾	259,071	73,855	108,474	441,400	598,499	1,039,899
- Held-to-maturity	5,654,528	1,054,279	1,883	6,710,690	6,292,597	13,003,287
Investment in associates ⁽²⁾	-	-	38,220	38,220	-	38,220
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	30	30	213,771	213,801
Property and equipment	-	170	9,578	9,748	1,138,983	1,148,731
Deferred income tax assets	-	2,243	59	2,302	489,961	492,263
Other assets	173,467	211,178	136,651	521,296	518,272	1,039,568
Total assets	14,321,432	8,773,239	683,373	23,778,044	31,781,376	55,559,420
Liabilities						
Deposits from banks	629,285	402,860	137,706	1,169,851	92,993	1,262,844
Due to customers	9,064,423	4,803,398	453,706	14,321,527	20,201,493	34,523,020
Other borrowed funds	3,092,784	3,522,658	32,645	6,648,087	658,856	7,306,943
Debt securities in issue	846,180	696,429	-	1,542,609	-	1,542,609
Derivative financial instruments	-	-	-	-	237,021	237,021
Financial liabilities designated at fair value	51,273	-	-	51,273	-	51,273
Current income taxes payable	-	363	255	618	9,952	10,570
Deferred income tax liabilities	-	1,854	2,058	3,912	128,551	132,463
Hedging derivatives	-	-	-	-	27,785	27,785
Other provisions	76,238	828	-	77,066	224,083	301,149
Retirement benefit obligations	-	950	-	950	801,676	802,626
Insurance technical reserves	224,987	59,900	-	284,887	501,581	786,468
Other liabilities	223,638	220,980	46,897	491,515	3,016,460	3,507,975
Total liabilities	14,208,808	9,710,220	673,267	24,592,295	25,900,451	50,492,746
Net balance sheet position	112,624	(936,981)	10,106	(814,251)	5,880,925	5,066,674
Off-balance sheet derivative instruments net notional position	(245,412)	1,136,774	93,790	985,152	(792,441)	192,711
Net foreign currency position	(132,788)	199,793	103,896	170,901	5,088,484	5,259,385

- (1) Collective impairment allowance of TL248,210 thousand calculated on foreign currency denominated loans is presented as TL balance in the above currency position table.
- (2) Had the investment in associate and AFS equity instruments were excluded from the foreign currency position table as of 31 December 2007, the net foreign currency position of the Group would decrease from TL170,901 thousand to TL105,937 thousand.

At 31 December 2009, assets and liabilities denominated in foreign currency were translated into TL using a foreign exchange rate of TL1.4680 = US\$1, and TL2.1062 = EUR1 (2008: TL1.4744 = US\$1, and TL2.0872 = EUR1; 2007: TL1.1355 = US\$1, and TL1.6674 = EUR1).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

ii) Interest rate risk

Cash-flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair-value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest-rate risk limits are set in terms of a total sensitivity limit. Sensitivity analysis is performed according to a scenario of 5% shift in TL yield curve and 1% shift in FX yield curve. The resulting P/L should not exceed 20% of the Bank's Tier 1 Capital. Moreover, the BPV is applied for the banking book. The BPV limit restricts maximum interest rate risk position by currency and time buckets with valuation changes being based on an interest rate change of 0.01%

The table below summarises the Group's exposure to interest rate risk at 31 December 2009, 2008 and 2007. Included in the table are the Group's assets and liabilities in carrying amounts classified in terms of periods remaining to contractual repricing dates.

2009	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with central banks	1,302,954	-	-	-	2,926,381	4,229,335
Loans and advances to banks	3,212,700	95,689	146,168	13,899	327,628	3,796,084
Financial assets held for trading						
- Trading securities	143,878	50,069	63,024	17,097	91,855	365,923
- Trading derivatives	477,729	33,246	105,412	1,317	-	617,704
Loans and advances to customers	13,143,049	10,450,643	11,378,469	6,618,735	546,701	42,137,597
Hedging derivatives	128,519	28	84	-	-	128,631
Investment securities						
- Available-for-sale	657,076	267,807	187,114	886,971	55,288	2,054,256
- Held-to-maturity	4,690,434	1,449,880	2,733,148	4,445,257	-	13,318,719
Investment in associate	-	-	-	-	58,939	58,939
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	-	-	216,441	216,441
Property and equipment	-	-	-	-	1,156,183	1,156,183
Deferred income tax assets	-	-	-	-	771,084	771,084
Other assets	278,063	7,572	-	-	864,252	1,149,887
Total assets	24,034,402	12,354,934	14,613,419	11,983,276	8,038,280	71,024,311
Liabilities						
Deposits from banks	1,673,841	481,449	-	-	276,889	2,432,179
Due to customers	32,119,692	1,619,626	556,231	134,036	7,751,801	42,181,386
Other borrowed funds	5,239,191	3,263,947	127,998	-	-	8,631,136
Debt securities in issue	1,743,760	-	-	-	718	1,744,478
Derivative financial instruments	122,982	47,014	74,773	23,746	-	268,515
Financial liabilities designated at fair value	-	-	-	-	-	-
Current income taxes payable	-	-	-	-	69,036	69,036
Deferred income tax liabilities	-	-	-	-	288,294	288,294
Hedging derivatives	73,077	40	259,616	24,880	-	357,613
Other provisions	-	-	-	-	397,871	397,871
Retirement benefit obligations	-	-	-	-	964,541	964,541
Insurance technical reserves	-	-	-	-	866,804	866,804
Other liabilities	2,215,932	3,570	-	-	1,896,553	4,116,055
Total liabilities	43,188,475	5,415,646	1,018,618	182,662	12,512,507	62,317,908
Net interest repricing gap	(19,154,073)	6,939,288	13,594,801	11,800,614	(4,474,227)	8,706,403

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

2008	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with central banks	1,722,570	-	-	-	2,994,446	4,717,016
Loans and advances to banks	2,071,251	247,589	167,279	252,194	572,235	3,310,548
Financial assets held for trading						
- Trading securities	56,051	139,366	99,834	40,601	60,612	396,464
- Trading derivatives	196,327	211,642	8,945	16,737	-	433,651
Loans and advances to customers	15,312,447	11,068,731	10,104,984	5,234,258	749,563	42,469,983
Hedging derivatives	-	-	-	-	-	-
Investment securities						
- Available-for-sale	574,391	205,178	397,623	581,104	127,795	1,886,091
- Held-to-maturity	4,681,861	1,207,522	2,356,815	4,459,583	-	12,705,781
Investment in associate	-	-	-	-	55,593	55,593
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	-	-	179,697	179,697
Property and equipment	-	-	-	-	1,215,588	1,215,588
Deferred income tax assets	-	-	-	-	509,850	509,850
Other assets	132,030	7,394	-	-	850,080	989,504
Total assets	24,746,928	13,087,422	13,135,480	10,584,477	8,338,987	69,893,294
Liabilities						
Deposits from banks	737,269	112,933	-	-	232,639	1,082,841
Due to customers	35,843,769	1,271,331	453,577	98,601	6,058,569	43,725,847
Other borrowed funds	6,399,189	2,097,537	959,797	195,915	-	9,652,438
Debt securities in issue	1,966,298	-	-	-	-	1,966,298
Derivative financial instruments	174,035	28,469	1,603	16,675	-	220,782
Financial liabilities designated at fair value	66,434	-	-	-	-	66,434
Current income taxes payable	-	-	-	-	8,339	8,339
Deferred income tax liabilities	-	-	-	-	201,922	201,922
Hedging derivatives	-	-	-	-	-	-
Other provisions	-	-	-	-	377,235	377,235
Retirement benefit obligations	-	-	-	-	869,255	869,255
Insurance technical reserves	-	-	-	-	835,200	835,200
Other liabilities	1,914,008	11,463	55,723	-	1,866,494	3,847,688
Total liabilities	47,101,002	3,521,733	1,470,700	311,191	10,449,653	62,854,279
Net interest repricing gap	(22,354,074)	9,565,689	11,664,780	10,273,286	(2,110,666)	7,039,015

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

2007	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with central banks	1,458,919	-	-	-	2,281,469	3,740,388
Loans and advances to banks	731,045	444,023	186,126	26,622	219,707	1,607,523
Financial assets held for trading						
- Trading securities	54,102	58,721	115,282	26,669	60,756	315,530
- Trading derivatives	30,987	10,595	7,085	-	-	48,667
Loans and advances to customers	11,862,615	8,654,571	7,587,173	3,345,864	396,108	31,846,331
Hedging derivatives	281	1,403	-	-	-	1,684
Investment securities						
- Available-for-sale	254,374	130,426	324,495	195,279	135,325	1,039,899
- Held-to-maturity	5,257,269	1,805,217	1,674,011	4,266,790	-	13,003,287
Investment in associate	-	-	-	-	38,220	38,220
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	-	-	213,801	213,801
Property and equipment	-	-	-	-	1,148,731	1,148,731
Deferred income tax assets	-	-	-	-	492,263	492,263
Other assets	82,952	7,480	4,198	599	944,339	1,039,568
Total assets	19,732,544	11,112,436	9,898,370	7,861,823	6,954,247	55,559,420
Liabilities						
Deposits from banks	813,819	365,202	-	-	83,823	1,262,844
Due to customers	26,796,979	1,885,669	249,580	-	5,590,792	34,523,020
Other borrowed funds	4,384,536	2,859,561	62,846	-	-	7,306,943
Debt securities in issue	1,542,609	-	-	-	-	1,542,609
Derivative financial instruments	81,096	153,898	2,027	-	-	237,021
Financial liabilities designated at fair value	-	51,273	-	-	-	51,273
Current income taxes payable	-	-	-	-	10,570	10,570
Deferred income tax liabilities	-	-	-	-	132,463	132,463
Hedging derivatives	15,817	11,968	-	-	-	27,785
Other provisions	-	-	-	-	301,149	301,149
Retirement benefit obligations	-	-	-	-	802,626	802,626
Insurance technical reserves	-	-	-	-	786,468	786,468
Other liabilities	2,197,147	2,200	3	682	1,307,943	3,507,975
Total liabilities	35,832,003	5,329,771	314,456	682	9,015,834	50,492,746
Net interest repricing gap	(16,099,459)	5,782,665	9,583,914	7,861,141	(2,061,587)	5,066,674

The table below summarises weighted average interest rates for financial instruments by major currencies outstanding at 31 December 2009, 2008 and 2007 based on yearly contractual rates.

	2009			2008			2007		
	US\$ (%)	EUR (%)	TL (%)	US\$ (%)	EUR (%)	TL (%)	US\$ (%)	EUR (%)	TL (%)
Assets									
Cash and balances with central banks	-	-	3.78	0.63	1.12	8.64	1.01	1.78	9.73
Loans and advances to banks	1.80	1.06	7.33	1.60	2.71	17.67	5.14	4.57	17.56
Financial assets held for trading	5.81	7.34	8.59	8.15	6.81	19.21	8.57	7.22	16.89
Investment securities									
- Available-for-sale	7.43	7.18	11.73	6.43	7.76	19.63	7.69	7.92	17.75
- Held-to-maturity	6.80	5.54	11.49	7.36	5.99	20.08	7.49	6.09	19.04
Loans and advances to customers	5.29	6.14	17.81	6.04	7.37	24.06	6.97	6.75	19.80
Liabilities									
Deposits from banks	1.68	1.16	2.98	5.39	5.54	16.07	5.22	4.56	17.13
Due to customers	1.94	1.90	7.87	4.50	3.60	20.28	4.83	3.33	18.68
Debt securities in issue	1.29	1.76	-	3.82	5.99	-	5.22	4.83	-
Financial liabilities designated at fair value	-	-	-	6.16	-	-	6.16	-	-
Other borrowed funds	2.30	2.77	13.29	3.44	5.66	15.67	5.35	4.84	16.02

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

iii) Liquidity risk

Liquidity risk comprises the risks arising from the inability to fund the increase in the assets, the inability to cover the liabilities due and the operations performed in illiquid markets. The liquidity risk is managed within the Asset and Liability Management strategy in accordance with the market risk policies. In this scope, the funding sources are being diversified and sufficient cash and cash equivalents are held. During the monthly meetings of the ALCO, the liquidity position of the Group is evaluated and it is ensured that the required actions are taken when considered necessary.

Within YKB, the following definitions apply to the components of Liquidity Risk:

1. **Liquidity Mismatch Risk** refers to the risk of non-conformity between the amounts and/or the maturities of cash inflows and cash outflows;
2. **Liquidity Contingency Risk** refers to the risk that future unexpected events could require a greater amount of liquidity than the amount foreseen as necessary for the bank. This risk could arise as a result of events such as the failure by clients to reimburse loans, the need to finance new assets, difficulties in selling liquid assets or obtaining new financings in the event of a liquidity crisis; and
3. **Market Liquidity Risk** refers to the risk that the bank may incur losses as a result of the sale of assets deemed to be liquid, or in extreme conditions is not able to liquidate such positions due to not sufficient liquidity offered by the market or keeps the position that is too large when compared to market turnover. Market liquidity risk is primarily handled via the VaR system in the Credit Risk Officer ("CRO") division and is not a focus of this Liquidity Policy;

Reports on short term liquidity positions and structural liquidity positions are prepared by Risk Management. Short-term liquidity risk management considers the events that will impact upon the Bank's liquidity position from one day up to three months. Structural liquidity positions consider the events effecting the Group's liquidity position in the long term. The primary objective is to maintain an adequate ratio between total liabilities and medium or long-term assets, with a view to avoiding pressures on short-term sources (both current and future), while in the meantime optimising the cost of funding.

According to the BRSA communiqué on liquidity, Banks have to meet 80% liquidity ratio of foreign currency assets/liabilities and 100% liquidity ratio of total assets/liabilities for weekly and monthly time brackets. Risk Management performs the calculation of the mentioned ratios on a daily basis and shares the results with Treasury department and senior management.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

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

2009	Demand and up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Liabilities					
Deposits from banks	1,952,974	487,196	-	-	2,440,170
Due to customers	39,969,003	1,668,914	614,776	164,736	42,417,429
Other borrowed funds	1,507,069	3,872,085	1,970,505	2,122,797	9,472,456
Debt securities in issue	94,950	279,884	1,322,552	618,381	2,315,767
Financial liabilities designated at fair value	-	-	-	-	-
Total liabilities	43,523,996	6,308,079	3,907,833	2,905,914	56,645,822
Assets held for managing liquidity risk (contractual maturity dates)	21,852,211	16,345,096	21,757,207	14,514,462	74,468,976
2008					
Liabilities					
Deposits from banks	973,054	115,688	-	-	1,088,742
Due to customers	42,138,195	1,315,708	526,844	140,178	44,120,925
Other borrowed funds	2,134,802	4,046,580	2,469,799	2,728,494	11,379,675
Debt securities in issue	-	70,460	1,359,451	978,386	2,408,297
Financial liabilities designated at fair value	-	67,032	-	-	67,032
Total liabilities	45,246,051	5,615,468	4,356,094	3,847,058	59,064,671
Assets held for managing liquidity risk (contractual maturity dates)	21,072,193	17,050,785	21,463,511	14,999,615	74,586,104
2007					
Liabilities					
Deposits from banks	1,047,621	374,311	-	-	1,421,932
Due to customers	32,442,039	2,052,970	277,688	-	34,772,697
Other borrowed funds	1,505,491	3,548,372	1,536,208	1,997,403	8,587,474
Debt securities in issue	-	-	1,134,045	856,069	1,990,114
Financial liabilities designated at fair value	-	3,128	51,625	-	54,753
Total liabilities	34,995,151	5,978,781	2,999,566	2,853,472	46,826,970
Assets held for managing liquidity risk (contractual maturity dates)	16,527,234	14,295,771	19,413,412	12,921,888	63,158,305

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

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

Derivatives settled on a gross basis

2009	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivatives held for trading:						
Foreign exchange derivatives:						
- Outflow	7,542,363	2,350,088	715,018	267,544	262,528	11,137,541
- Inflow	7,578,917	2,720,600	725,628	353,728	262,528	11,641,401
Interest rate derivatives:						
- Outflow	98,888	897,543	468,219	3,827,142	1,022,597	6,314,389
- Inflow	94,622	893,260	358,828	3,558,805	987,070	5,892,585
Derivatives held for hedging:						
Interest rate derivatives:						
- Outflow	9,847	13,769	139,278	2,066,193	235,690	2,464,777
- Inflow	452	865	8,057	1,806,284	213,395	2,029,053
Total outflow	7,651,098	3,261,400	1,322,515	6,160,879	1,520,815	19,916,707
Total inflow	7,673,991	3,614,725	1,092,513	5,718,817	1,462,993	19,563,039
2008	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivatives held for trading:						
Foreign exchange derivatives:						
- Outflow	3,301,229	543,819	2,339,573	41,903	-	6,226,524
- Inflow	3,313,034	544,424	2,613,667	41,498	-	6,512,623
Interest rate derivatives:						
- Outflow	216,750	7,144	308,537	1,980,982	328,646	2,842,059
- Inflow	499,929	1,871,994	163,571	17,636	328,646	2,881,776
Derivatives held for hedging:						
Interest rate derivatives:						
- Outflow	-	-	-	-	-	-
- Inflow	-	-	-	-	-	-
Total outflow	3,517,979	550,963	2,648,110	2,022,885	328,646	9,068,583
Total inflow	3,812,963	2,416,418	2,777,238	59,134	328,646	9,394,399
2007	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivatives held for trading:						
Foreign exchange derivatives:						
- Outflow	2,868,109	906,507	233,165	114,050	-	4,121,831
- Inflow	2,936,193	823,966	202,539	91,474	-	4,054,172
Interest rate derivatives:						
- Outflow	-	21,248	265,662	673,446	482,014	1,442,370
- Inflow	2,743	23,112	195,556	518,518	482,014	1,221,943
Derivatives held for hedging:						
Interest rate derivatives:						
- Outflow	21,218	21,128	97,536	-	-	139,882
- Inflow	17,371	17,797	70,181	-	-	105,349
Total outflow	2,889,327	948,883	596,363	787,496	482,014	5,704,083
Total inflow	2,956,307	864,875	468,276	609,992	482,014	5,381,464

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

C. Operational risk

Operational risk is defined as the risk of losses due to errors, infringements, interruptions, damages caused by internal processes or personnel or systems or caused by external events. Legal and compliance risk is a sub-category of operational risk: it is the risk to earnings from violations or non compliance with laws, rules, regulations, agreements, prescribed practices or ethical standards. Operational Risk Management Department (“ORM”) monitors the Bank’s operational risk exposure in accordance to standards and policies, collects operational risk data in a web-based database, performs the risk indicators’ identification, the scenario analysis assessment, Business Continuity Management and assures the quality of data gathered in accordance to the Basel II standards, proposes insurance hedging on operational risks and prepares risk mitigation plans. ORM performs second level controls, manages and measures the Bank’s operational risks.

For the regulatory purposes and consideration in statutory capital adequacy ratio, on a consolidated base the Group calculates the amount subject to operational risk with the basic indicator method in accordance with the Section 4 of the “ Regulation Regarding Measurement and Evaluation of Banks’ Capital Adequacy Ratio” published in the Official Gazette No. 26333 dated 1 November 2006, namely “The Calculation of the Amount Subject to Operational Risk”, based on the gross income of the Group for the years ended 2008, 2007 and 2006. As of 31 December 2009, the total amount subject to operational risk is calculated as TL7,695,259 thousand (2008: TL6,418,028 thousand; 2007: TL5,056,682 thousand) and the amount of the related capital requirement is TL615,621thousand (2008: TL513,442 thousand; 2007: TL404,535 thousand).

D. Capital management

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

The Bank's and its affiliates' regulatory capital position on a consolidated basis at 31 December 2009, 2008 and 2007 was as follows:

	2009	2008	2007
Tier I capital			
-Share capital	4,347,051	4,347,051	3,427,051
-Share premium	543,881	543,881	541,633
-Legal reserves	96,220	44,089	17,159
-Retained earnings	1,505,894	1,005,547	388,939
-Extraordinary reserves	1,769,658	822,644	326,025
-Non-controlling interests	57,261	47,980	295,034
-Provisions for possible risks up to 25% of core capital	96,616	63,775	92,185
-Profit on disposal of associates, subsidiaries and immovables to be transferred to share capital	61,969	18,513	5,298
-Less: intangible assets	(1,194,649)	(1,157,825)	(1,191,711)
-Less: Special costs	(97,938)	-	(27,820)
-Less: Prepaid expenses	(109,837)	(167,762)	(135,528)
Total qualifying Tier I capital	7,076,126	5,567,893	3,738,265
Tier II capital			
-Collective impairment allowance	755,571	659,018	585,454
-Secondary subordinated loan	2,208,374	2,172,900	1,742,336
-Revaluation reserve - available-for-sale-investments	46,893	15,289	1,215
Total qualifying Tier II capital	3,010,838	2,847,207	2,329,005
Deductions			
-Investments in unconsolidated financial institutions and banks	(28,530)	(32,083)	(30,801)
-Investments in financial institutions (domestic, foreign) and banks, in which less than 10% equity interest is exercised and that exceeds 10% and more of the total core and supplementary capital of the Bank	(58,939)	(55,593)	(38,220)
-The net book value of Bank's immovables that are over 50% of shareholders' equity and immovables or commodities that are received on behalf of the receivables from customers and are to be disposed according to Banking Law article 57 as they have been held for more than five years from the acquisition date.	(16,145)	-	-
Total deductions	(103,614)	(87,676)	(69,021)
Total regulatory capital	9,983,350	8,327,424	5,998,249
Amount subject to credit risk	50,885,068	51,093,393	41,227,695
Amount subject to market risk	1,865,338	972,600	552,013
Amount subject to operational risk	7,695,259	6,418,028	5,056,682
Capital adequacy ratio (%)	16.52	14.24	12.81

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

According to the temporary article 1. of Regulation Regarding Capital Adequacy; “Special Costs”, “Prepaid Expenses”, “Intangible Assets” and “Amount of deferred tax asset exceeding 10% of core capital” will be considered as “Deductions from the Capital” until 1 January 2009. After this date, the aforementioned amounts will be deducted from “Tier I Capital”.

E. Fair value of financial instruments

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

The estimated fair values of financial instruments have been determined by the Group using available market information and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange.

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

	2009		2008		2007	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial assets:						
Loans and advances to banks	3,796,084	3,799,876	3,310,548	3,340,164	1,607,523	1,641,350
Investment securities (held-to-maturity)	13,318,719	13,982,200	12,705,781	12,482,450	13,003,287	13,184,329
Loans and advances to customers	42,137,597	42,225,440	42,469,983	42,653,501	31,846,331	32,014,078
Financial liabilities:						
Deposits from banks	2,432,179	2,434,939	1,082,841	1,082,849	1,262,844	1,262,867
Due to customers	42,181,386	42,181,386	43,725,847	43,725,847	34,523,020	34,523,020
Other borrowed funds	8,631,136	8,702,533	9,652,438	9,694,556	7,306,943	7,350,809
Debt securities in issue	1,744,478	1,744,478	1,966,298	1,966,298	1,542,609	1,542,609

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

Loans and advances to banks

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

Loans and advances to customers

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

Investment securities

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

Due to customers, deposits from banks, other borrowed funds and debt securities in issue

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

The estimated fair value of other borrowings without quoted market price is based on discounted cash flows using money market interest rates prevailing at the balance sheet date with similar credit risk, currency and remaining maturity. The fair value of debt securities in issue is considered to approximate its carrying amounts.

The estimated fair value of interest bearing liabilities due to customers is considered to approximate its carrying amounts.

Fair value hierarchy

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 4 - FINANCIAL RISK MANAGEMENT (Continued)

Assets and liabilities measured at fair value

	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss				
Financial assets held for trading				
- Debt securities	326,770	190	-	326,960
- Equity securities	38,963	-	-	38,963
- Derivatives	-	617,704	-	617,704
Financial assets designated at fair value				
- Debt securities	-	-	-	-
- Equity securities	-	-	-	-
- Loans and advances to banks	-	-	-	-
- Loans and advances to customers	-	-	-	-
Hedging derivatives	-	128,631	-	128,631
Available-for-sale financial assets				
- Investments securities - debt	1,963,444	39,199	-	2,002,643
- Investments securities - equity	26,743	-	24,870	51,613
Total assets	2,355,920	785,724	24,870	3,166,514
Financial liabilities at fair value through profit and loss				
- Derivatives	-	268,515	-	268,515
- Financial liabilities designated at fair value	-	-	-	-
Hedging derivatives	-	357,613	-	357,613
Total liabilities	-	626,128	-	626,128

Reconciliation of Level 3 Items

	Investment securities - equity
Available-for-sale financial assets	
Balance at the beginning of the period	20,371
Total losses	-
- Profit or loss	(7)
- Other comprehensive income	-
Purchases	4,506
Issues	-
Settlements	-
Transfers to loans and receivables	-
Transfers into or out of Level 3	-
Balance At the end of the period	24,870

Total losses for the period included in profit or loss for assets/liabilities held at period end

-

F. Fiduciary activities

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

	2009	2008	2007
Investment securities held in custody	19,229,647	15,497,795	17,543,083
Cheques received for collection	5,033,055	5,350,632	4,824,347
Commercial notes received for collection	1,693,290	1,599,651	3,260,890
	25,955,992	22,448,078	25,628,320

YAPI VE KREDİ BANKASI A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

NOTE 5 - CASH AND CASH EQUIVALENTS

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

	2009	2008	2007
Cash and cash equivalents	655,565	608,093	444,943
Demand deposits with central banks	715,217	888,849	542,456
Gold	188,796	74,524	133,768
Loans and advances to banks (with original maturity less than three months)	3,518,848	1,981,778	915,929
Total	5,078,426	3,553,244	2,037,096

NOTE 6 - CASH AND BALANCES WITH CENTRAL BANKS

	2009	2008	2007
Cash and cash equivalents			
Cash in hand - TL	479,054	421,331	300,007
Cash in hand - foreign currency	173,797	182,631	135,929
Cheques received - foreign currency	183	372	1,080
Other	2,531	3,759	7,927
	655,565	608,093	444,943
Demand deposits at central banks			
Foreign currency	714,953	888,795	542,456
TL	264	54	-
	715,217	888,849	542,456
Reserve deposits at central banks			
Foreign currency	1,556,129	1,790,518	1,420,329
TL	1,302,424	1,429,556	1,332,660
	2,858,553	3,220,074	2,752,989
	4,229,335	4,717,016	3,740,388
Current	4,229,335	4,717,016	3,740,388
Non-current	-	-	-
	4,229,335	4,717,016	3,740,388

Reserve deposits at central banks are as follows:

	2009	2008	2007
The Central Bank of Republic of Turkey	2,658,972	3,093,081	2,727,162
De Nederlandsche Bank	197,391	119,789	19,454
The Central Bank of the Russian Federation	1,660	348	3,246
The National Bank of Azerbaijan	530	6,856	3,127
Total	2,858,553	3,220,074	2,752,989

These funds are not available to finance the Group's day-to-day operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 6 - CASH AND BALANCES WITH CENTRAL BANKS (Continued)

Turkish:

Reserve requirements of Central Bank of the Republic of Turkey ("CBRT") represent the minimum deposits, as required by the Turkish Banking Law, calculated on the basis of customer deposits taken at the rates determined by the CBRT. In accordance with the current legislation, the mandatory reserve deposit rates for Turkish lira and foreign currency deposits are 5% (2008: 6%; 2007: 6%) and 9% (2008: 9%; 2007: 11%), respectively. The mandatory reserve deposit rates are applicable to both time and demand deposits.

Foreign:

Reserve requirements of De Nederlandsche Bank represents reserve deposits equivalent to 2% of the overnight deposits, deposits with agreed maturity or deposits redeemable at notice up to 2 years, debt securities issued with agreed maturity up to 2 years and money market paper.

Reserve requirements of Central Bank of the Russian Federation represent reserve deposits equivalent to 2.5% of the liabilities to non-resident legal entities in all currencies, 2.5% of the liabilities to natural persons in all currencies, 2.5% of the other liabilities in all currencies.

Reserve requirements of National Bank of Azerbaijan; represent reserve deposits equivalent to 0.5% of the statutory balances of customer accounts, due to banks and other funds borrowed.

NOTE 7 - LOANS AND ADVANCES TO BANKS

	2009			2008			2007		
	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total
TL:									
Nostro/ demand deposits	31,456	6,398	37,854	28,778	7,619	36,397	48,010	263	48,273
Time deposits	453,626	53,595	507,221	82,875	2,578	85,453	59,137	64,567	123,704
Interbank money market	1,581,459	-	1,581,459	126,497	4,880	131,377	13,728	-	13,728
	2,066,541	59,993	2,126,534	238,150	15,077	253,227	120,875	64,830	185,705
Foreign currency:									
Nostro/ demand deposits	14,367	275,407	289,774	12,054	523,784	535,838	37,494	133,940	171,434
Time deposits	488,785	890,991	1,379,776	575,275	1,849,623	2,424,898	439,319	391,323	830,642
Interbank money market	-	-	-	29,968	66,617	96,585	-	419,742	419,742
	503,152	1,166,398	1,669,550	617,297	2,440,024	3,057,321	476,813	945,005	1,421,818
	2,569,693	1,226,391	3,796,084	855,447	2,455,101	3,310,548	597,688	1,009,835	1,607,523

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 8 - FINANCIAL ASSETS HELD FOR TRADING

	2009	2008	2007
Government bonds and treasury bills	207,224	193,854	152,188
Government bonds and treasury bills sold under repurchase agreements	66,654	106,454	102,027
Other debt securities	53,082	78,569	42,089
Total debt securities	326,960	378,877	296,304
Equity securities - listed	38,963	17,587	19,226
Total equity securities	38,963	17,587	19,226
Derivative financial instruments	617,704	433,651	48,667
Total financial assets held for trading	983,627	830,115	364,197

Government bonds and treasury bills are discount and coupon securities issued by the Government of the Republic of Turkey. Other debt securities mainly represent A and B type open-ended mutual funds incorporated in Turkey managed by the Group and carried for resale to customers.

NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Group utilises the following derivative instruments:

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

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

Options are the right to buy or sell for the buyer and are the obligations for the writer an asset at a specified price until a specified expiration date. Options are traded for clients’ needs therefore the Group does not carry open position in the options book.

“Interest rate cap and floor arrangements” provide the purchaser with the right to receive interest rate differential payments on a notional amount when the indexed rate is in excess of the specified cap rate and limits the benefit of reductions in interest rates if it occurs.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES
(Continued)

2009

	Contract/ notional amount	Fair values	
		Assets	Liabilities
<i>Derivatives held for trading</i>			
Foreign exchange derivatives:			
Currency forwards	4,076,196	39,284	42,170
Currency swaps	13,815,348	474,910	12,707
OTC currency options	3,938,532	30,974	30,880
Other derivatives	423,808	-	-
Total OTC derivatives	22,253,884	545,168	85,757
Interest rate derivatives:			
Interest rate swaps	7,191,104	38,170	25,336
Cross-currency interest rate swaps	3,025,092	33,889	156,490
OTC interest rate options	1,793,988	477	932
Total OTC derivatives	12,010,184	72,536	182,758
Total derivative assets/ (liabilities) held for trading	34,264,068	617,704	268,515
<i>Derivatives held for hedging</i>			
Derivatives designated as fair value hedges:			
Interest rate swaps	3,968,893	128,631	357,613
Total derivative assets/ (liabilities) held for hedging	3,968,893	128,631	357,613
Total recognised derivative assets/ (liabilities)	38,232,961	746,335	626,128
Current		494,171	126,341
Non-current		252,164	499,787
Total recognised derivative assets/ (liabilities)	38,232,961	746,335	626,128

2008

	Contract/ notional amount	Fair values	
		Assets	Liabilities
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	3,875,363	83,184	65,999
Currency swaps	8,047,504	235,958	50,147
OTC currency options	769,814	1,847	521
Other derivatives	46,462	-	-
Total OTC derivatives	12,739,143	320,989	116,667
Interest rate derivatives:			
Interest rate swaps	3,179,352	526	22,637
Cross-currency interest rate swaps	2,188,339	112,136	81,478
OTC interest rate options	266,440	-	-
Total OTC derivatives	5,634,131	112,662	104,115
Total derivative assets/ (liabilities) held for trading	18,373,274	433,651	220,782
Derivatives held for hedging			
Derivatives designated as fair value hedges:			
Interest rate swaps	-	-	-
Total derivative assets/ (liabilities) held for hedging	-	-	-
Total recognised derivative assets/ (liabilities)	18,373,274	433,651	220,782
Current		370,839	146,828
Non-current		62,812	73,954
Total recognised derivative assets/ (liabilities)	18,373,274	433,651	220,782

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 9 - DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES
(Continued)

2007

	Contract/ notional amount	Fair values	
		Assets	Liabilities
<i>Derivatives held for trading</i>			
Foreign exchange derivatives:			
Currency forwards	2,902,202	19,555	62,666
Currency swaps	3,173,500	11,624	8,667
OTC currency options	2,092,313	1,061	979
Other derivatives	7,987	-	-
Total OTC derivatives	8,176,002	32,240	72,312
Interest rate derivatives:			
Interest rate swaps	1,074,030	6,971	12,817
Cross-currency interest rate swaps	1,330,354	9,456	151,891
OTC interest rate options	-	-	-
Total OTC derivatives	2,404,384	16,427	164,708
Total derivative assets/ (liabilities) held for trading	10,580,386	48,667	237,020
<i>Derivatives held for hedging</i>			
Derivatives designated as fair value hedges:			
Interest rate swaps	221,767	1,684	27,786
Total derivative assets/ (liabilities) held for hedging	221,767	1,684	27,786
Total recognised derivative assets/ (liabilities)	10,802,153	50,351	264,806
Current		39,481	135,900
Non-current		10,870	128,906
Total recognised derivative assets/ (liabilities)	10,802,153	50,351	264,806

NOTE 10 - LOANS AND ADVANCES TO CUSTOMERS

2009

	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Performing loans	22,964,455	6,631,435	7,083,106	1,717,570	1,429,416	39,825,982
Watch listed loans	1,482,618	361,959	411,500	328,665	-	2,584,742
Loans under legal follow - up	1,242,429	492,319	803,888	284,233	8,173	2,831,042
Gross	25,689,502	7,485,713	8,298,494	2,330,468	1,437,589	45,241,766
Specific allowance for impairment	(1,157,577)	(368,479)	(804,461)	(152,998)	(6,258)	(2,489,773)
Collective allowance for impairment	(306,114)	(55,732)	(232,802)	(8,416)	(11,332)	(614,396)
Total allowance for impairment	(1,463,691)	(424,211)	(1,037,263)	(161,414)	(17,590)	(3,104,169)
Net	24,225,811	7,061,502	7,261,231	2,169,054	1,419,999	42,137,597
Current						23,338,486
Non-current						18,799,111

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 10 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

2008	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Performing loans	24,131,553	5,998,995	7,050,632	2,456,562	1,046,234	40,683,976
Watch listed loans	813,328	250,613	394,908	166,171	-	1,625,020
Loans under legal follow - up	889,788	246,739	493,860	183,098	4,984	1,818,469
Gross	25,834,669	6,496,347	7,939,400	2,805,831	1,051,218	44,127,465
Specific allowance for impairment	(634,178)	(103,181)	(321,075)	(101,510)	(4,838)	(1,164,782)
Collective allowance for impairment	(294,524)	(51,967)	(128,170)	(12,167)	(5,872)	(492,700)
Total allowance for impairment	(928,702)	(155,148)	(449,245)	(113,677)	(10,710)	(1,657,482)
Net	24,905,967	6,341,199	7,490,155	2,692,154	1,040,508	42,469,983
Current						25,449,227
Non-current						17,020,756
2007						
	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Performing loans	18,036,931	3,911,382	6,235,113	2,229,133	809,032	31,221,591
Watch listed loans	159,360	227,691	362,236	88,619	-	837,906
Loans under legal follow - up	1,181,407	101,694	405,244	84,157	4,073	1,776,575
Gross	19,377,698	4,240,767	7,002,593	2,401,909	813,105	33,836,072
Specific allowance for impairment	(993,666)	(56,706)	(312,898)	(60,316)	(4,073)	(1,427,659)
Collective allowance for impairment	(294,800)	(59,480)	(188,607)	(15,156)	(4,039)	(562,082)
Total allowance for impairment	(1,288,466)	(116,186)	(501,505)	(75,472)	(8,112)	(1,989,741)
Net	18,089,232	4,124,581	6,501,088	2,326,437	804,993	31,846,331
Current						19,608,668
Non-current						12,237,663

Fair value of collateral:

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

2009	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Watch listed loans	410,783	180,037	-	183,043	-	773,863
Loans under legal follow - up	342,043	173,030	-	117,649	8,173	640,895
Total	752,826	353,067	-	300,692	8,173	1,414,758
2008						
	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Watch listed loans	301,121	190,007	-	86,084	-	577,212
Loans under legal follow - up	252,781	77,044	-	79,114	4,984	413,923
Total	553,902	267,051	-	165,198	4,984	991,135
2007						
	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Watch listed loans	47,131	114,244	-	45,634	-	207,009
Loans under legal follow - up	259,165	25,993	-	29,757	4,079	318,994
Total	306,296	140,237	-	75,391	4,079	526,003

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 10 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

Included in the performing loans and advances to consumers, are loans amounting to TL2,083,948 thousand which have been designated as financial asset at fair value as of 31 December 2009 (2008: None; 2007: TL115,000 thousand). Those loans have been matched with interest rate swaps whose notional amounts are TL3,968,893 thousand as of 31 December 2009 (2008: None; 2007: TL119,763 thousand) as part of a documented interest rate risk management strategy. An accounting mismatch would arise if the loans and advances were accounted for at amortised cost, because the related derivatives are measured at fair value, with movements in the fair value taken through the income statement. By designating those loans and advances at fair value, the movement in the fair value of the long-term debt will be recorded in the income statement.

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

2009						
	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
At 1 January	928,702	155,148	449,245	113,677	10,710	1,657,482
Provision for loan impairment	881,686	653,655	978,839	115,924	7,012	2,637,116
Amounts recovered during the year	(311,816)	(360,390)	(302,991)	(53,484)	(152)	(1,028,833)
Loans written off during the year as uncollectible (-)	(33,502)	(24,189)	(87,831)	(14,703)	-	(160,225)
Exchange differences	(1,379)	(13)	1	-	20	(1,371)
At 31 December	1,463,691	424,211	1,037,263	161,414	17,590	3,104,169

2008						
	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
At 1 January	1,288,466	116,186	501,505	75,472	8,112	1,989,741
Provision for loan impairment	282,209	189,646	304,225	83,564	2,481	862,125
Amounts recovered during the year	(122,654)	(148,766)	(171,159)	(38,073)	(82)	(480,734)
Loans written off during the year as uncollectible (-)	(520,521)	(2,410)	(185,345)	(7,286)	-	(715,562)
Exchange differences	1,202	492	19	-	199	1,912
At 31 December	928,702	155,148	449,245	113,677	10,710	1,657,482

2007						
	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
At 1 January	1,271,812	62,887	528,515	65,991	7,830	1,937,035
Provision for loan impairment	202,887	89,175	228,591	52,041	712	573,406
Amounts recovered during the period	(73,915)	(34,884)	(75,391)	(38,628)	(193)	(223,011)
Loans written off during the period as uncollectible (-)	(122,427)	(759)	(180,210)	(3,932)	(237)	(307,565)
Exchange differences	10,109	(233)	-	-	-	9,876
At 31 December	1,288,466	116,186	501,505	75,472	8,112	1,989,741

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 10 - LOANS AND ADVANCES TO CUSTOMERS (Continued)

At the Board of Directors Meeting held on 27 May 2009; it has been decided to sell out a non-performing loan portfolio amounting to TL77,424 thousand (excluding the write-offs) included in non-performing loan accounts at a price of TL26,525 thousand. This transaction has affected the financial statements as TL22,668 thousand of pretax income after legal expenses.

As of 28 March 2008, the Bank sold out a non-performing loan portfolio amounting to TL429,229 thousand selected out of its commercial, corporate and SME problematic loan stocks via adjudication as of 7 March 2008. The corresponding portfolio has eventuated as TL421,167 thousand after deduction of amounts for which sales transactions were realised except the real estate having right of repurchase. As of the date of the sale, the Bank has recognised provision amounting to TL376,395 thousand for the related loans stock. As of 28 March 2008, the portion amounting to TL2,203 thousand out of the total amount of TL60,500 thousand is kept as the value for the real estate with right to repurchase and the remaining portion amounting to TL58,297 thousand is collected. After the deduction of mentioned amounts, the portfolio amounting to TL362,468 thousand has been included in the table above in "Loans written off during the year as uncollectible" line.

	2009	2008	2007
Gross investment in direct finance leases	2,644,114	3,163,335	2,810,321
Unearned finance income	(412,710)	(511,495)	(496,584)
	2,231,404	2,651,840	2,313,737
Interest accrual on receivables	39,187	30,752	23,929
Receivables from outstanding lease payments	59,877	123,239	64,243
Provision for impaired lease receivables	(161,414)	(113,677)	(75,472)
Net investment in direct finance leases	2,169,054	2,692,154	2,326,437

Lease payments receivable consists of rentals over the terms of leases. The rentals according to maturity are as follows:

	2009	2008	2007
Less than 1 year	-	1,214,924	1,102,293
More than 1 year but not later than 5 Years	895,583	807,341	1,549,718
Later than 5 Years	1,234,697	945,792	73,706
Less: unearned finance income	(412,710)	(511,495)	(496,584)
Investment in performing lease receivables	1,717,570	2,456,562	2,229,133

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11 - INVESTMENT SECURITIES

(i) Securities available-for-sale

	2009	2008	2007
Debt securities - at fair value:			
Government bonds and treasury bills	2,002,643	1,812,474	958,948
Eurobonds	960,334	893,589	601,949
Government bonds and treasury bills sold under repurchase agreements	919,003	641,995	282,480
Eurobonds sold under repurchase agreements	-	18,639	-
Other	17,585	-	-
Equity securities - at fair value	105,721	258,251	74,519
Listed	51,613	73,617	80,951
Unlisted	26,743	53,246	60,701
	24,870	20,371	20,250
Total securities available-for-sale	2,054,256	1,886,091	1,039,899
Current	584,333	471,578	240,279
Non-current	1,469,923	1,414,513	799,620

Government bonds, treasury bills and Eurobonds are discount and coupon securities issued by the Government of the Republic of Turkey. Other debt securities represent A and B type open-ended mutual funds incorporated in Turkey managed by the Group and bonds issued by foreign financial institutions.

Net gains from changes in the fair value of available-for-sale investment securities, net of tax is TL78,361 thousand (2008: TL9,689 thousand net losses; 2007: TL7,372 thousand). There are no impairments recognised for available-for-sale debt securities.

The principal available-for-sale equity shares at 31 December 2009, 2008 and 2007 are as follows:

Name of the company	Nature of Business	2009 Control rates (%)	2008 Control rates (%)	2007 Control rates (%)	2009	2008	2007
Listed							
Yapı Kredi Koray	Real estate management	30.45	30.45	30.45	24,683	31,354	33,855
Mastercard Inc.	Credit Card Services	0.01	0.01	0.11	1,916	11,449	26,744
Visa Inc.	Credit Card Services	-	0.01	-	-	10,382	-
Other					144	61	102
					26,743	53,246	60,701
Unlisted							
ISE Settlement and Custody Bank Inc.	Custody	4.86	4.86	4.86	12,360	12,360	12,360
Kredi Kayıt Bürosu A.Ş.	Credit Card Services	18.18	18.18	18.18	2,751	2,751	2,751
Türkiye Genel Sigorta A.Ş.	Insurance	0.01	0.01	0.01	25	25	25
Other					9,734	5,235	5,114
					24,870	20,371	20,250
					51,613	73,617	80,951

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 11 - INVESTMENT SECURITIES (Continued)

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

	2009	2008	2007
At 1 January	1,886,091	1,039,899	891,756
Additions	17,563,113	32,149,066	24,016,181
Disposals / redemption	(17,450,316)	(31,357,817)	(23,672,850)
Gains from changes in fair value	97,567	36,808	(47,569)
Impairment losses	(34,284)	(10,733)	(80,701)
Exchange differences on monetary assets	(7,915)	28,868	(66,918)
At 31 December	2,054,256	1,886,091	1,039,899

(ii) Securities held-to-maturity

	2009	2008	2007
Debt securities - at amortised cost - listed:	13,318,719	12,705,781	13,003,287
Government bonds and treasury bills	6,830,558	6,192,275	5,806,239
Eurobonds	4,960,654	5,718,643	5,298,995
Government bonds and treasury bills sold under repurchase agreements	65,815	161,622	1,539,859
Eurobonds sold under repurchase agreement	1,309,650	583,340	225,032
Foreign government bonds	152,042	49,901	133,162
Total securities held-to-maturity	13,318,719	12,705,781	13,003,287
Current	3,503,540	927,816	2,111,348
Non-current	11,869,435	13,664,056	11,931,838
Total investment securities	15,372,975	14,591,872	14,043,186

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

	2009	2008	2007
At 1 January	12,705,781	13,003,287	16,964,466
Additions	2,008,035	536,931	3,789,617
Redemption	(1,139,115)	(2,356,693)	(6,644,040)
Transfers	-	-	(4,199)
Exchange differences on monetary assets	(255,982)	1,522,256	(1,102,557)
At 31 December	13,318,719	12,705,781	13,003,287

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

NOTE 12 - INVESTMENT IN ASSOCIATE

	2009	2008	2007
At 1 January	55,593	38,220	41,352
Share of results	5,417	3,667	1,890
Dividends paid	(1,840)	(1,290)	(1,217)
Exchange difference	(231)	14,996	(3,805)
At 31 December	58,939	55,593	38,220

The Group's interest in Banque de Commerce, its principal associate, is as follows:

	Total Assets	Equity	Revenues	Net Profit
31 December 2007	2,229,733	124,616	94,005	10,129
31 December 2008	3,440,068	181,261	131,758	16,163
31 December 2009	3,563,413	193,590	70,080	19,081

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

NOTE 13 - GOODWILL

	2009	2008	2007
At 1 January	1,023,528	1,023,528	1,023,528
Impairment charge	-	-	-
At 31 December	1,023,528	1,023,528	1,023,528

Goodwill is reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred. The Group allocated goodwill to its cash-generating units ("CGU") which are represented by each reporting segment except foreign operations (Note 38).

There was no impairment identified at 31 December 2009 (2008: None; 2007: None).

NOTE 14 - OTHER INTANGIBLE ASSETS

	2009	2008	2007
Cost	340,104	288,115	313,408
Accumulated amortisation	(123,663)	(108,418)	(99,607)
Net book amount	216,441	179,697	213,801

Movements of other intangible assets were as follows:

2009	Rights and licenses	Software	Trademarks and customer relationships related intangibles	Total
Cost				
At 1 January	76,252	48,779	163,084	288,115
Additions	47,626	33,790	-	81,416
Disposals	(24,792)	(4,350)	-	(29,142)
Transfers	(285)	-	-	(285)
Translation differences	-	-	-	-
At 31 December	98,801	78,219	163,084	340,104
Accumulated amortisation				
At 1 January	(30,396)	(25,021)	(53,001)	(108,418)
Amortisation charge (Note 33)	(10,094)	(11,894)	(16,308)	(38,296)
Disposals	18,796	4,251	-	23,047
Transfers	4	-	-	4
Translation differences	-	-	-	-
At 31 December	(21,690)	(32,664)	(69,309)	(123,663)
Net book amount at 31 December	77,111	45,555	93,775	216,441

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 14 - OTHER INTANGIBLE ASSETS (Continued)

2008	Rights and licenses	Software	Trademarks and customer relationships related intangibles	Total
Cost				
At 1 January	110,275	40,049	163,084	313,408
Additions	27,072	10,044	-	37,116
Disposals	(23,357)	(4,296)	-	(27,653)
Transfers	(37,738)	2,947	-	(34,791)
Translation differences	-	35	-	35
At 31 December	76,252	48,779	163,084	288,115
Accumulated amortisation				
At 1 January	(41,067)	(21,847)	(36,693)	(99,607)
Amortisation charge (Note 33)	(16,811)	(7,458)	(16,308)	(40,577)
Disposals	23,357	4,172	-	27,529
Transfers	4,125	141	-	4,266
Translation differences	-	(29)	-	(29)
At 31 December	(30,396)	(25,021)	(53,001)	(108,418)
Net book amount at 31 December	45,856	23,758	110,083	179,697
2007				
Cost				
At 1 January	91,002	78,812	163,084	332,898
Additions	58,760	10,372	-	69,132
Disposals	(508)	(48,530)	-	(49,038)
Transfers	(38,979)	(516)	-	(39,495)
Translation differences	-	(89)	-	(89)
At 31 December	110,275	40,049	163,084	313,408
Accumulated amortisation				
At 1 January	(59,765)	(73,528)	(20,385)	(153,678)
Amortisation charge (Note 33)	(11,023)	(6,943)	(16,308)	(34,274)
Disposals	461	48,269	-	48,730
Transfers	29,260	10,285	-	39,545
Translation differences	-	70	-	70
At 31 December	(41,067)	(21,847)	(36,693)	(99,607)
Net book amount at 31 December	69,208	18,202	126,391	213,801

The Group assigned a consultancy firm for the valuation of intangible assets determined as a credit card trademark, customer base and relationship that can be measured reliably and for which the future economic benefit is embodied in the asset. In line with the report dated 13 February 2006 the Bank recognised TL163,084 thousand of intangible assets in its consolidated financial statements. Identified intangible assets are amortised using the straight-line method over their useful lives, which have been assessed as 10 years. As of 31 December 2009, the net book value of these intangible assets amounts to TL93,775 thousand (2008: TL110,083 thousand; 2007: TL126,391 thousand).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 15 - PROPERTY AND EQUIPMENT

	2009	2008	2007		
Cost	3,971,510	4,060,379	3,980,047		
Accumulated depreciation and impairment	(2,815,327)	(2,844,791)	(2,831,316)		
Net book amount	1,156,183	1,215,588	1,148,731		
2009					
	Land and buildings	Office equipments	Furniture and fixtures, vehicles and other	Leasehold improvements	Total
Cost					
At 1 January	2,911,837	640,323	343,075	165,144	4,060,379
Additions	36,826	44,060	21,664	19,725	122,275
Disposals	(144,643)	(17,802)	(27,242)	(21,260)	(210,947)
Transfers	4,562	(7,075)	2,495	303	285
Translation difference	(449)	(31)	(15)	13	(482)
At 31 December	2,808,133	659,475	339,977	163,925	3,971,510
Accumulated depreciation and impairment					
At 1 January	(2,052,332)	(463,840)	(270,825)	(57,794)	(2,844,791)
Depreciation charge (Note 33)	(46,023)	(56,268)	(14,270)	(29,068)	(145,629)
Disposals	109,338	17,258	23,982	20,493	171,071
Transfers	(793)	3,345	(2,552)	(4)	(4)
Recoveries	-	-	-	-	-
Impairment charge, net (Note 33)	3,888	-	-	-	3,888
Translation difference	134	26	(9)	(13)	138
At 31 December	(1,985,788)	(499,479)	(263,674)	(66,386)	(2,815,327)
Net book amount at 31 December	822,345	159,996	76,303	97,539	1,156,183
2008					
	Land and buildings	Office equipments	Furniture and fixtures, vehicles and other	Leasehold improvements	Total
Cost					
At 1 January	3,008,795	587,197	308,021	76,034	3,980,047
Additions	862	65,931	56,904	66,270	189,967
Disposals	(98,890)	(11,474)	(24,091)	(12,886)	(147,341)
Transfers	-	(2,169)	2,028	34,932	34,791
Translation difference	1,070	838	213	794	2,915
At 31 December	2,911,837	640,323	343,075	165,144	4,060,379
Accumulated depreciation and impairment					
At 1 January	(2,093,780)	(434,410)	(255,013)	(48,113)	(2,831,316)
Depreciation charge (Note 33)	(47,355)	(41,551)	(20,834)	(16,499)	(126,239)
Disposals	54,143	10,590	7,158	11,832	83,723
Transfers	-	2,169	(2,028)	(4,407)	(4,266)
Recoveries	36,826	-	-	-	36,826
Impairment charge, net (Note 33)	(1,841)	-	-	-	(1,841)
Translation difference	(325)	(638)	(108)	(607)	(1,678)
At 31 December	(2,052,332)	(463,840)	(270,825)	(57,794)	(2,844,791)
Net book amount at 31 December	859,505	176,483	72,250	107,350	1,215,588

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 15 - PROPERTY AND EQUIPMENT (Continued)

2007

	Land and buildings	Office equipments	Furniture and fixtures, vehicles and other	Leasehold improvements	Total
Cost					
At 1 January	3,369,374	614,220	296,026	128,791	4,408,411
Additions	7,945	74,668	11,750	14,287	108,650
Disposals	(357,043)	(83,044)	(17,245)	(56,645)	(513,977)
Transfers	(9,259)	(18,042)	18,432	(10,062)	(18,931)
Translation difference	(2,222)	(605)	(942)	(337)	(4,106)
At 31 December	3,008,795	587,197	308,021	76,034	3,980,047
Accumulated depreciation and impairment					
At 1 January	(2,330,310)	(484,459)	(239,563)	(100,005)	(3,154,337)
Depreciation charge (Note 33)	(52,787)	(47,635)	(16,893)	(14,967)	(132,282)
Disposals	179,765	79,844	15,488	56,607	331,704
Transfers	6,882	17,244	(14,971)	9,726	18,881
Recoveries	100,728	-	-	-	100,728
Impairment charge, net (Note 33)	1,345	-	-	-	1,345
Translation difference	597	596	926	526	2,645
At 31 December	(2,093,780)	(434,410)	(255,013)	(48,113)	(2,831,316)
Net book amount at 31 December	915,015	152,787	53,008	27,921	1,148,731

At 31 December 2009, total impairment provision on property and equipment amounts to TL627,377 thousand (2008: TL631,265 thousand; 2007: TL666,250 thousand).

NOTE 16 - OTHER ASSETS

	2009	2008	2007
Collaterals given	215,881	130,584	161,374
Gold stocks	188,796	74,524	133,768
Due from insurance policyholders	157,394	158,656	189,332
Prepaid expenses	132,298	167,845	131,630
Asset held for resale, net	97,048	95,149	146,617
Payments for credit card settlements	65,113	44,082	43,847
Advances given	17,689	26,155	75,483
Accounts receivable	6,776	17,165	9,625
Other	268,892	275,344	147,892
	1,149,887	989,504	1,039,568
Current	897,070	794,218	775,307
Non-current	252,817	195,286	264,261

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

	2009	2008	2007
Cost			
At 1 January	117,605	128,938	497,072
Additions	16,656	59,620	23,754
Disposals	(22,059)	(70,953)	(373,997)
Other	-	-	(17,891)
At 31 December	112,202	117,605	128,938
Impairment			
At 1 January	(22,456)	(60,854)	(314,532)
Impairment charge for the year, net (Note 33)	-	(522)	(5,566)
Disposals	7,302	38,920	248,779
Other	-	-	10,465
At 31 December	(15,154)	(22,456)	(60,854)
Net book amount at 31 December	97,048	95,149	68,084

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 17 - DEPOSITS FROM BANKS

	2009			2008			2007		
	Demand	Term	Total	Demand	Term	Total	Demand	Term	Total
Foreign currency:									
Domestic banks	135,245	160,824	296,069	94,482	116	94,598	28,404	393,014	421,418
Foreign banks	8,166	599,628	607,794	25,452	127,603	153,055	16,048	74,417	90,465
Funds deposited under repurchase agreements	-	1,108,581	1,108,581	-	624,978	624,978	-	657,968	657,968
	143,411	1,869,033	2,012,444	119,934	752,697	872,631	44,452	1,125,399	1,169,851
TL:									
Domestic banks	56,574	9,321	65,895	91,710	49,674	141,384	7,167	37,791	44,958
Foreign banks	76,904	276,936	353,840	20,995	47,831	68,826	32,204	7,313	39,517
Funds deposited under repurchase agreements	-	-	-	-	-	-	-	8,518	8,518
	133,478	286,257	419,735	112,705	97,505	210,210	39,371	53,622	92,993
	276,889	2,155,290	2,432,179	232,639	850,202	1,082,841	83,823	1,179,021	1,262,844
Current	276,889	2,155,290	2,432,179	232,639	850,202	1,082,841	83,823	1,179,021	1,262,844
Non-current	-	-	-	-	-	-	-	-	-

NOTE 18 - DUE TO CUSTOMERS

	2009			2008			2007		
	Demand	Term	Total	Demand	Term	Total	Demand	Term	Total
Foreign currency deposits:									
Saving deposits	2,076,935	8,229,426	10,306,361	1,754,634	8,420,204	10,174,838	1,506,940	6,934,478	8,441,418
Commercial deposits	2,208,694	6,723,689	8,932,383	1,801,831	7,015,821	8,817,652	1,744,676	4,133,714	5,878,390
Public sector deposits	-	-	-	3,338	-	3,338	1,719	-	1,719
	4,285,629	14,953,115	19,238,744	3,559,803	15,436,025	18,995,828	3,253,335	11,068,192	14,321,527
TL deposits:									
Saving deposits	1,440,267	13,946,703	15,386,970	1,044,092	14,787,777	15,831,869	930,469	10,345,803	11,276,272
Commercial deposits	1,747,739	5,344,243	7,091,982	1,203,785	7,119,835	8,323,620	1,185,605	5,920,460	7,106,065
Funds deposited under repurchase agreements	-	130,106	130,106	-	160,448	160,448	-	1,413,225	1,413,225
Public sector deposits	278,166	55,418	333,584	250,889	163,193	414,082	221,383	184,548	405,931
	3,466,172	19,476,470	22,942,642	2,498,766	22,231,253	24,730,019	2,337,457	17,864,036	20,201,493
	7,751,801	34,429,585	42,181,386	6,058,569	37,667,278	43,725,847	5,590,792	28,932,228	34,523,020
Current	7,751,801	33,739,320	41,491,121	6,058,569	37,115,099	43,173,668	5,590,792	28,682,646	34,273,438
Non-current	-	690,265	690,265	-	552,179	552,179	-	249,582	249,582

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 19 - OTHER BORROWED FUNDS

	2009	2008	2007
Foreign institutions and banks			
Syndication loans	2,070,306	1,479,804	1,717,122
Subordinated debt	2,224,023	2,220,601	1,772,914
Other	3,212,281	4,800,994	2,908,352
Total foreign	7,506,610	8,501,399	6,398,388
Domestic banks	1,077,640	883,428	509,323
Interbank money market	46,886	267,611	399,232
Total domestic	1,124,526	1,151,039	908,555
	8,631,136	9,652,438	7,306,943
Current	5,012,536	5,701,524	4,570,391
Non-current	3,618,600	3,950,914	2,736,552

Funds borrowed from foreign institutions include a syndicated credit facility, in the amount of US\$559.5 million and EUR313.5 million dual-tranche multi-currency term loan facility dated 10 September 2008, with an interest rate of annual Libor+0.75% provided by 42 international banks with The Bank of New York Mellon acting as agent, and matured on 24 September 2009.

Funds borrowed from foreign institutions include a syndicated credit facility, in the amount of US\$136 million and EUR210.5 million dual-tranche multi-currency term loan facility dated 21 April 2009, with an interest rate of annual Libor+2.50% provided by 20 international banks with, Wachovia Bank, National Association acting as agent, and matures on 27 April 2010.

At 30 March 2006, YKB obtained a subordinated loan amounting to EUR500 million, with ten years maturity and a repayment option at the end of five years. The interest rate is determined as EURIBOR+2% for the first five years. The loan was obtained from Merrill Lynch Capital Corporation with UniCredito Italiano S.p.A. as guarantor. In addition, the subordinated loan obtained by Koçbank at 28 April 2006 amounting to EUR350 million, with ten years maturity and repayment option at the end of five years has been transferred to YKB. The interest rate is determined as EURIBOR+2.25% for the first five years. The loan was obtained from Goldman Sachs International Bank with UniCredito Italiano S.p.A. as guarantor.

In addition, the Bank obtained a subordinated loan on 25 June 2007 amounting to EUR200 million, with ten years maturity and repayment option at the end of five years. The interest rate is determined as EURIBOR+1.85% for the first five years. The loan was obtained from Citibank, N.A., London Branch with UniCredito Italiano S.p.A as guarantor. With the written approvals of the BRSA dated 3 April 2006, 2 May 2006 and 19 June 2007, the loans have been approved as subordinated loans and can be taken into consideration as supplementary capital within the limits of "Capital Adequacy Regulation".

Funds borrowed from domestic banks represent funds obtained from Export Credit Bank of Turkey (Türk Eximbank) in context of Export Financing and International Loans ("EFIL") sourced by World Bank to finance certain export loans provided to customers in line with the prevailing regulations

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 20 - DEBT SECURITIES IN ISSUE

	2009	2008	2007	Average interest rate (%) ⁽¹⁾		
				2009	2008	2007
US\$175,000,000 Series 2006-A Floating Rate Notes Due 2014	257,266	258,967	200,078	0.51	2.42	5.23
US\$200,000,000 Series 2006-B Floating Rate Notes Due 2014	294,019	295,962	228,660	0.48	2.39	5.20
US\$114,000,000 Series 2006-C Floating Rate Notes Due 2013	167,569	170,155	131,462	0.61	2.52	5.33
€279,846,000 Series 2006-D Floating Rate Notes Due 2014	590,539	629,848	503,452	0.93	4.34	4.84
€67,215,000 Series 2007-A Floating Rate Notes Due 2015	141,833	241,430	192,977	0.89	4.30	4.80
US\$199,000,000 of Series 2007-B Floating Rate Notes Due 2015	292,534	369,936	285,980	0.45	2.36	5.17
Other	718	-	-			
	1,744,478	1,966,298	1,542,609			
Current	337,673	9,053	-			
Non-current	1,406,805	1,957,245	1,542,609			
	1,744,478	1,966,298	1,542,609			

(1) The premium rates paid to monoline companies are excluded from the interest rates.

In December 2006, YKB finalised a diversified payment rights securitization transaction of US\$800 million and EUR300 million by securitising its foreign currency denominated present and future remittances created via payment orders. The deal securitizes YKB's payment orders created via SWIFT MT 103 or similar payment orders accepted as derived primarily from YKB's trade finance and other retail and corporate businesses and paid through foreign depository banks.

The offered notes under the securitization program are issued by Yapı Kredi Diversified Payment Rights Finance Company "SPC", an exempted limited liability company incorporated under the laws of the Cayman Islands. YKB acts as the originator of the diversified payment rights "DPR" and as the servicer. There were 4 tranches, which were insured by the monoline companies namely, Assured Guaranty Corporation, MBIA Insurance Corporation, Radian Asset Assurance Inc, and Ambac Assurance Corporation. The offered notes were offered for sale outside the United States in reliance upon Regulation S under the Securities Act. The Series 2006-D Notes are listed on the Luxembourg Stock Exchange. On the issuance date for the offered notes as of 14 December 2006, the SPC also entered into a private placement of US\$310,000,000 of Series 2006-E Floating Rate Notes due 2011, which is a Senior Series and thus rank pari passu with the offered notes.

YKB has repaid US\$310 million of the credit as of 1 March 2007 and refinanced it with a US\$400 million of DPR transaction. The additional issuance was composed of two tranches one for €115million and one for US\$250 million, insured by Financial Guaranty Insurance Company (FGIC) and XL Capital Assurance Incorporation respectively.

NOTE 21 - FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE

	2009	2008	2007
Financial liabilities designated at fair value	-	66,434	51,273

Certain fixed rate borrowed funds have been matched with cross currency swaps as part of a documented currency risk management strategy. An accounting mismatch would arise if the borrowed funds were accounted for at amortised cost, because the related derivatives are measured at fair value with movements in the fair value taken through the income statement. By designating the long-term debt at fair value, the movement in the fair value of the long-term debt is recorded in the income statement. There is no contractual undiscounted amount that will be required to be paid at maturity of the above debt (2008: TL67,032 thousand; 2007: TL54,753 thousand). There were no gains or losses attributable to changes in the credit risk for those financial liabilities designated at fair value as of 31 December 2009 (2008: None; 2007: None).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 22 - TAXATION

	2009	2008	2007
Current tax expense	(480,911)	(255,320)	(269,029)
Deferred tax income / (expense)	174,965	(61,096)	57,537
Refund from tax litigation against the corporation (1)	-	-	22,879
Additional corporate tax liability due to tax refunds (2)	-	-	(49,064)
	(305,946)	(316,416)	(237,677)

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

(i) Corporate Tax Rate and Filing

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

Under the Corporate Tax Law numbered 5520, the applicable corporate tax rate is 20% for 2009 (2008:20%; 2007:20%). Corporate tax is payable at a rate of 20% over the corporate tax base of the company after adjusting for certain disallowable expenses, exempt income, investment allowance and other additions and deductions. The annual corporate income tax return is required to be filed until 25th day of the fourth month following the close of the related fiscal year. Payments will be carried out in single installment until the end of the month in which the tax return is to be filed.

(ii) Controlled Foreign Corporations ("CFC")

Corporations established abroad and controlled directly or indirectly by tax resident companies and real persons by means of separate or joint participation in the capital or dividends or voting rights at the rate of a minimum 50% are considered as CFC provided that the below conditions are fulfilled:

- 25% or more of the gross revenue of the foreign subsidiary must be composed of passive income like interest, dividend, rent, license fee, or marketable securities sales income;
- The CFC must be subject to an effective income tax rate lower than 10% for its commercial profit in its home country; and,
- Gross revenue of the CFC must exceed the equivalent of TL100 thousand in a foreign currency in the related period.

CFC's profit is included in the corporate income tax base of the controlling resident corporation, irrespective of whether it is distributed or not, at the rate of the shares controlled, in the fiscal period covering the month of closing of the fiscal period of the CFC. The CFC's profit that has already been taxed in Turkey will not be subject to additional tax in Turkey in the event of dividend distribution; whereas the portion of the profit distributed that has not been previously taxed in Turkey will be subject to taxation. Taxes that CFC pays over its profit in the related foreign country will be offset from the tax calculated for the same revenue in Turkey.

(iii) Thin Capital

If the ratio of the borrowings from shareholders or from persons related to the shareholders exceeds three times the shareholders' equity of the borrower company at any time within the relevant fiscal year, the exceeding portion of the borrowing will be considered as thin capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 22 - TAXATION (Continued)

The interest paid or accrued and similar payments on thin capital are re-classified at the end of the relevant fiscal year as distributed dividend from the perspective of the borrower and as dividend received from the perspective of the lender, and as repatriated profit for non-resident taxpayers. In order to prevent double taxation, previously applied taxation in the hands of the lender that received interest or derived exchange gains will be amended.

For company that uses thin capital, there will be an additional tax assessment with penalty for the interest and similar payments for withholding tax over dividend distribution. Accordingly, under the new thin capitalisation regulation, the ratio of the loans received from related parties to shareholders' equity will be considered as three to one. Except for the loans received from credit institutions that provide loans only to related companies, half of the loans received from related banks and similar institutions are to be taken into account during thin capitalisation calculations. In other words, the loans received just from these institutions will not be considered as thin capital until the amount of the borrowing exceeds six times the shareholders' equity. Please note that, banks operating in Turkey are exempt from Thin Capitalisation regulation in terms of borrowing.

(iv) Transfer Pricing

If a taxpayer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with the arm's length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are regarded as non-deductible expenses for corporate income tax purposes. The expression "purchase or sale of goods or services" is used in a broad sense and includes all economic, commercial or financial transactions and employment relations between related parties.

(v) Anti-tax Heaven Legislation

All sorts of payments made to corporations (including branches of resident corporations) that are established or are operational in countries which are regarded by the Council of Ministers to undermine fair tax competition due to tax and other practices, will be subject to taxation in Turkey irrespective of the fact that the payments in question are subject to tax or not; or, whether the corporation receiving the payment is a taxpayer or not. In this case, withholding tax at the rate of 30% is envisaged to be levied over these payments. Until now, Council of Ministers has not yet defined these jurisdictions and WHT rate as 30%.

(vi) Dividend Taxation

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

(vii) Advance Corporate Tax

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 22 - TAXATION (Continued)

(viii) Inflation Accounting

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

(ix) Tax Assessments

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

(x) Loss Carry Forward

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

There are numerous exemptions in the Corporate Tax Law concerning the corporations. Those related to the Company are as follows:

Exemption for participation in subsidiaries

Dividend income from participation in shares of capital of another full fledged (resident) taxpayer corporation (except for dividends from investment funds participation certificates and investment partnerships company shares) are exempt from corporate tax.

Exemption for sale of preferential right certificates and share premiums

Profits from sale of preferential right certificates and share premiums generated from sale of shares at a price exceeding face values of those shares during incorporations or capital increases of joint stock companies are exempt from corporate tax.

Exemption for income from foreign construction, maintenance, assembly and technical services

Income generated from construction, maintenance, assembly and technical services realised in foreign countries and recorded to results of operations are exempted from corporate taxation.

Exemption for participation into foreign subsidiaries

If the below conditions are fulfilled, participation income obtained from abroad and those transferred to Turkey by the date when corporate tax declaration regarding the taxation period in which they are obtained is filed shall not be subject to corporate tax in Turkey. Conditions are as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 22 - TAXATION (Continued)

In order to benefit from this amendment, foreign subsidiaries are required to fulfil the following conditions:

- The subsidiary should be incorporated as a joint stock or limited company,
- The legal and business center of the subsidiary should not be located in Turkey
- At least 10% of the paid-in capital of foreign subsidiary should be held.
- As of the acquisition date of participation income the participation share should have been kept for at least one fiscal year.
- Participation income is expected to carry a minimum 15% tax burden in the residence country. In the event of the core business of the foreign subsidiary is insurance, finance procurement or marketable security investment, in order to benefit from the foreign participation exemption the foreign subsidiaries should be subject to taxation (taxes such as income or corporate tax) in the company of which the subsidiary is operating, at a rate that should not be less than the corporate income tax rate in Turkey.
- Participation income has to be transferred to Turkey before the submission deadline of the corporate tax declaration

In order to apply the participation exemption the conditions have all to be fulfilled.

Exemption for income generated from foreign offices and permanent representatives

Gains obtained by corporations through their fixed places of business abroad or permanent representative offices abroad and bearing a tax liability similar to that of corporate tax at least at the rate of 15% in accordance with the tax law of the country where that place of business and permanent office is located, (equal to at least the corporate tax burden in Turkey regarding insurance and finance and financial leasing companies and for the companies whose main activity is investment in securities), and which is transferred to Turkey until the submission date of the corporate tax return of the related period, will be exempt from corporate tax.

Capital gains exemption for the capital gains obtained from the sale of foreign subsidiaries

Capital gains obtained from the sale of foreign company shares by the Turkish resident companies are exempt from corporate tax provided that the below conditions are satisfied: If as of the date of the income is generated at least 75% of the asset value (except cash) of the Turkish company is comprised of at least 10% shareholdings in one or more foreign companies. If these shares of the foreign companies are being held at least for a continuous period of two years.

Exemption for sale of participation shares and property

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

In the event that these profits accounted under special reserves are withdrawn from the entity in any means, transferred to abroad by non-resident taxpayer corporations or the entity liquidates (except by take over, merger and de-merger) within five years, those profits are considered as profits regarding that year and are subject to corporate tax and paid with taxes, tax penalties and late payment interest.

This exemption is not applicable for the companies whose main activity is real estate trading and/or leasing or securities trading.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 22 - TAXATION (Continued)

Exemption for investment allowance

Under the investment allowance regime applicable as of 31 December 2005, capital expenditures, with some exceptions, over TL10 thousand are eligible for investment incentive allowance of 40% is exempted from corporate income tax and this allowance is not subject to withholding tax without the requirement of an investment incentive certificate. Investment allowances calculated are deferred to the following years in cases where corporate income is insufficient. Investment allowances utilised within the scope of investment incentive certificates granted prior to 24 April 2003 in accordance with provisions of Income Tax Law Temporary Article 61 are subject to withholding tax at the rate of 19.8%, irrespective of profit distribution.

As of 1 January 2006, the investment allowance regime has been abolished with Corporate Income Tax Law No.5479.

Under the temporary article 69 of Income Tax Law, a transition period of three years has been provided for income and corporate taxpayers which have investment incentive allowance rights as of 31 December 2005, which have not yet utilised and which have been deferred to the following years where corporate income may be insufficient and where investment allowance will be earned from the investment expenditures made for the ongoing projects as of 31 December 2005. According to this, investment allowances which is calculated in accordance with temporary article 61 and article no: 19 of the Income Tax Law can be utilised for the income generated in the years 2006, 2007 and 2008 in accordance with the articles valid on 31 December 2005 Therefore the applicable corporate tax rate is 30% in case of benefiting from investment allowances. Tax payers have to inform the relevant tax office until the submission date of the first quarter advance tax return that they opt to utilize investment allowance in accordance with the Circular numbered KVK-3 /2006-3 /Investment Allowance 2 issued by Ministry of Finance. The choice of benefiting from investment allowance can not be changed in the annual tax return term.

Apart from the above mentioned exemptions considered in the determination of the corporate income tax base, allowances stated in Corporate Income Tax Law Article 8, 9 and 10, and Income Tax Law Article 40 are also taken into consideration.

According to the Constitutional Court meeting held on 15 October 2009, abolishment of the investment allowance application has been abolished with the claim of being unconstitutional by Constitutional Court. This decision is published in Official Gazette dated 8 January 2010.

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

	2009	2008	2007
Profit before income taxes	1,898,014	1,686,384	1,201,272
Theoretical income tax at the applicable tax rate of 20%	379,603	337,277	240,254
Effect of different tax rates in other countries	2,381	2,178	2,877
Refund from tax litigation against the corporate tax	-	-	(22,879)
Non-taxable consolidation adjustments	220	(264)	15,930
Additional corporate tax liability due to tax refunds	-	-	49,064
Tax effect of items which are not deductible or assessable for taxation purposes:			
- Income exempt from taxation	(19,397)	(22,444)	(34,410)
- Non-deductible expenses for tax purposes	13,435	25,549	16,213
- Utilisation of investment incentive	(70,840)	(25,563)	(29,024)
- Utilised tax loss carry forward	591	-	(1,011)
- Other	(47)	(317)	663
Income tax expense	305,946	316,416	237,677

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 22 - TAXATION (Continued)

Deferred income taxes

For all domestic subsidiaries and the Parent, deferred income taxes are calculated on temporary differences that are expected to be realised or settled based on the taxable income in fiscal year 2009 under the liability method using a principal tax rate of 20% at 31 December 2009 (2008: 20%; 2007: 20%).

For foreign subsidiaries deferred income taxes calculated on all temporary differences under the liability method using the principal tax rates at 31 December 2009, 2008 and 2007 which are as follows:

Country of incorporation	Tax rate (%)		
	2009	2008	2007
Russia	20.00	24.00	24.00
Netherlands	25.50	25.50	25.50
Azerbaijan	20.00	22.00	22.00

The deferred income tax asset and liability represent the tax effect of temporary differences arising due to the different treatment of certain items of income and expenses included in the financial statements compared to the local tax return in accordance with the applicable tax law plus any available tax loss carried forward from previous years.

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

	Cumulative Temporary Differences			Deferred Tax Asset/Liability		
	2009	2008	2007	2009	2008	2007
Impairment on assets	764,446	775,436	856,770	86,013	88,210	104,922
Allowance for loan impairment	1,004,005	712,361	736,714	200,597	142,540	134,315
Pension benefits transferable to SSI (Note 24)	864,059	774,366	706,000	172,812	154,873	141,200
Reserve for employment termination benefits (Note 24)	100,482	94,889	96,626	20,200	19,058	19,324
Revaluation of derivative instruments at fair value	612,151	220,782	264,806	122,429	43,577	51,206
Valuation differences on investment securities	37,755	36,571	27,336	7,561	7,314	5,468
Other	808,169	269,736	183,018	161,472	54,278	35,828
Deferred income tax assets	4,191,067	2,884,141	2,871,270	771,084	509,850	492,263
Difference between carrying value and tax base of property and equipment	953,649	984,944	1,000,363	98,968	105,199	106,628
Valuation differences on investment securities	2,843	2,329	34,863	306	117	6,972
Revaluation of derivative instruments at fair value	884,086	433,651	50,351	174,320	84,769	10,180
Assets capitalised under finance leases	8,088	8,294	8,523	1,618	1,659	1,704
Other	66,784	57,686	82,935	13,082	10,178	6,979
Deferred income tax liabilities	1,915,450	1,486,904	1,177,035	288,294	201,922	132,463
Deferred income tax assets, net	2,275,617	1,397,237	1,694,235	482,790	307,928	359,800

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 22 - TAXATION (Continued)

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

	2009	2008	2007
Balance at 1 January	307,928	359,800	305,529
Charge for the year, net	174,965	(61,096)	57,537
Tax assets charged to equity	370	(4,006)	(923)
Net investment hedge	588	14,360	(2,812)
Translation difference	(1,061)	(1,130)	469
Balance at 31 December	482,790	307,928	359,800

There are no deductible temporary differences for which no deferred tax asset is recognised in the balance sheet (2008: None; 2007: TL82,714 thousand).

Income tax effects relating to components of other comprehensive income

	2009			2008			2007		
	Before tax amount	Tax (expense) benefit	Net-of-tax amount	Before tax amount	Tax (expense) benefit	Net-of-tax amount	Before tax amount	Tax (expense) benefit	Net-of-tax amount
Foreign currency translation differences	256	-	256	103,970	-	103,970	(43,164)	-	(43,164)
Fair value gains on available-for-sale financial assets	78,485	370	78,855	(5,425)	(4,006)	(9,431)	12,085	(4,422)	7,663
Net investment hedge	(2,941)	588	(2,353)	(71,800)	14,360	(57,440)	14,061	(2,812)	11,249
Other comprehensive income for the year (net presentation)	75,800	958	76,758	26,745	10,354	37,099	17,018	(7,234)	(24,252)

NOTE 23 - OTHER PROVISIONS

	2009	2008	2007
Provision for losses on credit related commitments	181,953	173,698	131,872
Tax and other legal provisions	96,616	63,775	92,185
Provisions on credit cards and promotion campaigns	48,469	56,674	36,014
Provision on export commitment estimated liability	38,261	40,495	39,945
Other	32,572	42,593	1,133
	397,871	377,235	301,149
Current	14,624	-	-
Non-current	383,247	377,235	301,149

Tax and other legal provisions

At 31 December 2009, the Group is involved in number of legal disputes. The Group's lawyers advise that, owing to developments in some of these cases, it is probable that the Group will be found liable. Therefore, the management has recognised a provision of TL26,668 thousand (2008: TL22,927 thousand; 2007: TL12,865 thousand) as the best estimate of the amount to settle these potential obligations.

The Group recorded total provision of TL69,948 thousand (2008: TL40,848 thousand; 2007: TL79,320 thousand) against potential tax risks in the form of possible tax duties and penalties in the consolidated financial statements for the year ended 31 December 2009.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 23 - OTHER PROVISIONS (Continued)

Export commitment provision

The Group management has estimated losses that may arise from export loans to customers under legal follow-up that do not have the ability to fulfil their export commitments and has recognised provision of TL38,261 thousand (2008: TL40,495 thousand; 2007: TL39,945 thousand).

Provision for credit related commitments

Movement in provision for losses on credit related commitments is as follows:

	2009	2008	2007
Balance at 1 January	173,698	131,872	160,472
Impairment losses on credit related commitments (Note 34)	8,243	41,827	(28,601)
Provision released / used	25	(115)	(87)
Translation difference	(13)	114	88
Balance at 31 December	181,953	173,698	131,872

Movement in other provisions is as follows:

	Tax and other legal provision	Provisions on credit cards and promotion cam.	Export commitment provision	Other	2009 Total	2008 Total	2007 Total
At 1 January	63,775	56,674	40,495	42,593	203,537	169,277	218,063
Provision charged	31,972	122,810	2,253	28,427	185,462	253,114	229,431
Provision used	(690)	(131,015)	(4,487)	(38,448)	(174,640)	(218,850)	(275,769)
Transfer to discontinued operations	-	-	-	-	-	-	(2,073)
Translation difference	1,559	-	-	-	1,559	(4)	(375)
Balance at 31 December	96,616	48,469	38,261	32,572	215,918	203,537	169,277

NOTE 24 - RETIREMENT BENEFIT OBLIGATIONS

	2009	2008	2007
Balance sheet obligations for:			
- Post employment benefits (pension and medical) transferable to SSI	864,059	774,366	706,000
- Reserve for employment termination benefits	100,482	94,889	96,626
	964,541	869,255	802,626
Income statement charge for:			
- Post employment benefits (pension and medical) transferable to SSI (89,693)	(68,366)	(106,760)	
- Reserve for employment termination benefits	(20,609)	(15,308)	(11,967)
	(110,302)	(83,674)	(118,727)

Income statement charge for retirement benefit obligations has been recognized as a separate line item in the income statement for the years 31 December 2009, 2008 and 2007.

The cash payments to the Fund by the Group which represent the employers contribution during the year amounting to TL97,241 thousand (2008: TL88,796 thousand; 2007: TL69,706 thousand) has been included staff cost expenses under operating expenses (Note 33). Total expenses on post employment benefits are amounting to TL186,934 thousand (2008: TL157,162 thousand; 2007: TL176,466 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 24 - RETIREMENT BENEFIT OBLIGATIONS (Continued)

(i) Post employment benefits (Pension and medical) transferable to SSI

YKB personnel are members of the Fund which was established in accordance with the 20th temporary article of Social Security Law numbered 506 ("the Social Security Law"). The Banking Law which was enacted on 1 November 2005, included a provision requiring the transfer of pension funds of the banks, including the Fund, to the SSI within three years following the publication of the Banking Law. In accordance with the Banking Law, the actuarial calculation of the liability (if any) on the transfer should be performed by taking into account the procedures and other parameters determined by the commission established by Ministry of Labour and Social Security. Accordingly, the Group calculated the pension benefits transferable to SSI in accordance with the Decree published by the Council of Ministers in the Official Gazette dated 15 December 2006 No.26377 ("the 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 on 2 November 2005 the President initiated a lawsuit before the Turkish Constitutional Court in order to rescind the Article.

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 23 of the Banking Law, which requires the transfer of the Pension Fund to the SSI, until the decision regarding the cancellation thereof is published in the Official Gazette. The New Law was published in the Official Gazette dated 8 May 2008, numbered 26870 and came into force. In accordance with the New Law, members of the funds established in accordance with the Social Security Law should be transferred to SSI within 3 years following enactment.

The Main Opposition Party has applied to the Constitutional Court at 19 June 2008 for cancellation of some articles and requested them to be ineffective until the case of abrogation is finalised. As of the date of the publication of the financial statements, there is no decision of the Constitutional Court announced regarding the court case of abrogation.

The Group obtained an actuarial report from a registered actuary regarding this fund in accordance with the New Law related to principles and procedures on determining the application of transfer transactions. The actuarial balance sheet of the Fund has been prepared in accordance with a technical interest rate of 9.80% and CSO 1980 mortality table and reflects a technical deficit of TL864,059 thousand at 30 November 2009. (2008: TL774,366 thousand; 2007: TL706,000 thousand)

The Group's obligation in respect of the post employment pension and medical benefits transferable to SSI has been determined as the value of the payment that would need to be made to SSI to settle the obligation at the balance sheet date in accordance with the related article of the New Law and other related laws and regulations. The pension disclosures set out below therefore reflect the actuarial parameters and results in accordance with the New Law provisions.

The amounts recognised in the balance sheet are determined as follows:

	2009	2008	2007
Present value of funded obligations			
- Pension benefits transferable to SSI	1,239,133	1,063,181	935,366
- Post-employment medical benefits transferable to SSI	1,077,965	1,036,138	904,367
	161,168	27,043	30,999
Fair value of plan assets	(375,074)	(288,815)	(229,366)
Liability in the balance sheet	864,059	774,366	706,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 24 - RETIREMENT BENEFIT OBLIGATIONS (Continued)

The movement in the defined benefit obligation over the year is as follows:

	Defined benefit pension plans			Post-employment medical benefits		
	2009	2008	2007	2009	2008	2007
At 1 January	1,036,138	904,367	703,400	27,043	30,999	66,382
Current service cost	57,983	54,336	67,405	39,259	34,460	2,301
Interest cost	101,542	88,628	68,933	2,650	3,038	6,505
Contributions by plan participants	49,197	46,104	57,192	26,165	24,306	1,917
Actuarial losses/(gains)	(60,457)	37,687	107,891	97,741	(33,955)	(14,281)
Benefits paid	(106,438)	(94,984)	(100,454)	(31,690)	(31,805)	(31,825)
At 31 December	1,077,965	1,036,138	904,367	161,168	27,043	30,999

The amounts recognised in the income statement of pension fund are as follows:

	Defined benefit pension plans			Post-employment medical benefits		
	2009	2008	2007	2009	2008	2007
Current service cost	57,983	54,336	67,405	39,259	34,460	2,301
Interest cost	101,542	88,628	68,933	2,650	3,038	6,505
Expected return on plan assets	(85,517)	(53,993)	(34,681)	-	-	-
Net actuarial (gains) / losses recognised during the year	(21,199)	72,147	110,192	92,216	(41,454)	(44,189)
	52,809	161,118	211,849	134,125	(3,956)	(35,383)

The principal actuarial assumptions used were as follows:

	2009	2008	2007
	(%)	(%)	(%)
Discount rate			
- Pension benefits transferable to SSI	9.80	9.80	9.80
- Post-employment medical benefits transferable to SSI	9.80	9.80	9.80

The effects of a 1% movement in the assumed medical cost trend rate were as follows:

	Increase/ Decrease
Effect on the aggregate of the current service cost and interest cost	27
Effect on the defined benefit obligation	6,847

Mortality rate

The average life expectancy in years of a pensioner retiring at age 64 for men, 63 for women on the balance sheet date is as follows:

	2009	2008	2007
Male	15	15	15
Female	19	19	20

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 24 - RETIREMENT BENEFIT OBLIGATIONS (Continued)

The movement in the fair value of plan assets of the year is as follows:

	2009	2008	2007
At 1 January	288,815	229,366	170,542
Actual return on plan assets	85,517	53,993	34,681
Employer contributions	57,983	54,336	67,405
Employee contributions	49,197	46,104	57,192
Benefits paid	(106,438)	(94,984)	(100,454)
At 31 December	375,074	288,815	229,366

Plan assets are as follows:

	2009		2008		2007	
Government bonds and treasury bills	180,520	48%	144,207	50%	112,742	50%
Property and equipment	113,826	30%	94,596	33%	94,596	41%
Bank placements	29,328	8%	17,240	6%	14,216	6%
Short term receivables	26,907	7%	7,662	3%	2,080	1%
Other	24,493	7%	25,110	8%	5,732	2%
	375,074	100%	288,815	100%	229,366	100%

The fair value of the property occupied by the Group is TL44,604 thousand (2008: TL36,114 thousand; 2007: TL36,114 thousand).

Expected contributions to post-employment benefit plans for the year ending 31 December 2010 are TL197,000 thousand.

(ii) Reserve for employment termination benefits

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

	2009	2008	2007
Balance at 1 January	94,889	96,626	106,581
Interest costs	5,617	5,543	5,387
Actuarial gains and losses	6,554	7,466	11,426
Annual charge	8,438	2,299	(4,846)
Transfer to assets held for resale	-	-	(879)
Paid during the year	(15,031)	(17,238)	(20,785)
Translation difference	15	193	(258)
Balance at 31 December	100,482	94,889	96,626

The total of interest cost, actuarial gains and losses and annual charge for the year amounting to TL20,609 thousand (2008: TL15,308 thousand; 2007: TL11,967 thousand) were included in provision for retirement benefit obligations.

Under the Turkish Labour Law, the Parent and its domestic subsidiaries are required to pay termination benefits to each employee who has completed at least one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement age (63 for women and 64 for men). Since the legislation was changed on 8 September 1999, there are certain transitional provisions relating to length of service prior to retirement. The amount payable consists of one month's salary limited to a maximum of TL2,427.04 (1 January 2009: TL2,260.05) for each year of service.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 24 - RETIREMENT BENEFIT OBLIGATIONS (Continued)

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

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

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

	2009	2008	2007
Discount rate (%)	5.92	6.26	5.71
The probability of retirement (%)	94.78	95.53	96.20

Additionally, the principal actuarial assumption is that the maximum liability of TL2,427.04 for each year of service would increase in line with inflation. Thus the discount rate applied represents the expected real rate after adjusting for the effects of future inflation. As the maximum liability is revised semi-annually, the maximum amount of TL2,427.04 (1 January 2009: TL2,260.05, 1 January 2008: TL2,087.92) which is effective from 1 January 2010, has been taken into consideration in calculating the reserve for employee benefits of the Parent and its domestic subsidiaries.

NOTE 25 - INSURANCE BUSINESS

	2009	2008	2007
Mathematical reserve	514,133	315,123	272,742
Unearned premium reserve	217,717	208,531	215,810
Outstanding claim reserve	95,057	67,387	223,430
Profit share reserve	23,325	228,221	62,150
Insurance IBNR reserve	16,572	15,938	12,336
Total	866,804	835,200	786,468

Insurance liabilities and reinsurance assets

Gross insurance liabilities	2009	2008	2007
Life mathematical reserves	537,458	543,344	488,552
Reserve for unearned premiums	272,726	269,495	277,926
Claims provision	161,260	133,065	121,569
Total	971,444	945,904	888,047

Recoverable from reinsurers

Reserve for unearned premiums	(55,009)	(60,963)	(54,496)
Claims provision	(49,631)	(49,741)	(47,083)
Total	(104,640)	(110,704)	(101,579)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 25 - INSURANCE BUSINESS (Continued)

Net insurance liabilities	2009	2008	2007
Life mathematical reserves	537,458	543,344	488,552
Reserve for unearned premiums	217,717	208,531	223,430
Claims provision	111,629	83,325	74,486
Total	866,804	835,200	786,468
Movements in insurance liabilities and reinsurance assets			
<i>(a) Claims and loss adjustment expenses:</i>			
	Gross	2009 Reinsurance	Net
At the beginning of the year	132,969	(49,644)	83,325
Cash paid for claims settled in the year	78,663	23,473	102,136
Increase/(decrease) in liabilities			
- Current year	78,437	(157,484)	(79,047)
- Prior years	792	4,423	5,215
Total at the end of the year	290,861	(179,232)	111,629
Notified claims			95,057
Insurance IBNR			16,572
Total at the end of the year			111,629
	Gross	2008 Reinsurance	Net
At the beginning of the year	121,569	(47,083)	74,486
Cash paid for claims settled in the year	68,342	20,043	88,385
Increase/(decrease) in liabilities			
Current year	(71,340)	(14,496)	(85,836)
Prior years	14,398	(8,108)	6,290
Total at the end of the year	132,969	(49,644)	83,325
Notified claims			67,387
Insurance IBNR			15,938
Total at the end of the year			83,325
	Gross	2007 Reinsurance	Net
At the beginning of the year	104,270	(42,264)	62,006
Cash paid for claims settled in the year	(55,466)	25,306	(30,160)
Increase/(decrease) in liabilities			
Current year	57,279	(24,347)	32,932
Prior years	15,486	(5,778)	9,708
Total at the end of the year	121,569	(47,083)	74,486
Notified claims			62,150
Insurance IBNR			12,336
Total at the end of the year			74,486

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 25 - INSURANCE BUSINESS (Continued)

(b) Provision for unearned premiums:

	Gross	2009 Reinsurance	Net
Reserve for unearned premiums beginning of the year	269,495	(60,964)	208,531
Net change in reserve for unearned premiums	3,231	5,955	9,186
Total at the end of the year	272,726	(55,009)	217,717
	Gross	2008 Reinsurance	Net
Reserve for unearned premiums beginning of the year	277,926	(54,496)	223,430
Net change in reserve for unearned premiums	(8,431)	(6,468)	(14,899)
Total at the end of the year	269,495	(60,964)	208,531
	Gross	2007 Reinsurance	Net
Reserve for unearned premiums beginning of the year	242,457	(46,417)	196,040
Net change in reserve for unearned premiums	35,469	(8,079)	27,390
Total at the end of the year	277,926	(54,496)	223,430

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 25 - INSURANCE BUSINESS (Continued)

c) Sensitivity analysis:

If the loss ratio had increased/decreased by 1%, the expected technical profit for the year would have been TL4,202 thousand higher/lower.

Claim development table as of 31 December 2009:

	2005	2006	2007	2008	2009	Total
Accident year						
Estimate of ultimate claim costs:						
At the end of accident year	245,926	271,588	299,049	338,430	387,699	1,542,692
One year later	5,146	4,758	3,530	1,392	-	14,826
Two years later	956	1,843	1,577	-	-	4,376
Three years later	1,532	1,904	-	-	-	3,436
Four years later	1,173	-	-	-	-	1,173
Five years later	-	-	-	-	-	-
Current estimate of cumulative claims	254,733	280,093	304,156	339,822	387,699	1,566,503
Cumulative payments to date	(250,255)	(274,239)	(299,134)	(333,040)	(318,249)	(1,474,917)
Total						91,586
Estimated Insurance IBNR						9,556
Total liability per claim development table						101,142
Other assumed claims						10,487
Total liability included in the balance sheet						111,629

No provision is required to be accounted for, due to this financial risk arising from life insurance policies with a guaranteed annual return of 9%.

(d) Long-term insurance contracts with fixed terms and guaranteed terms:

Movement in life mathematical reserves during the year is as follows:

	2009	2008	2007
At 1 January	543,344	488,552	532,367
Premium of saving policies	52,219	59,569	65,881
Investment income	79,668	101,763	2,033
Closing balance of non-saving life policies	36,173	33,984	21,768
Surrender and policy maturities	(122,186)	(104,981)	(94,372)
Loading expenses	(3,968)	(4,790)	(6,351)
Commission expenses	(5,350)	(6,210)	(877)
Risk premium	(5,305)	(6,067)	(6,773)
Beginning balance of non-saving life policies	465	(21,768)	(13,188)
Other movements	(37,602)	3,292	(11,936)
At 31 December	537,458	543,344	488,552

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 25 - INSURANCE BUSINESS (Continued)

At 31 December 2009, 2008 and 2007, life mathematical reserve balances included the following foreign currency amounts:

	Amount in original currency			TL Equivalent		
	2009	2008	2007	2009	2008	2007
US\$	175,955	173,411	193,172	264,935	262,248	224,987
EUR	54,428	32,461	35,025	55,513	69,493	59,900
				320,448	331,741	284,887
	2009	2008	2007			
Earned premiums, net of reinsurance						
Gross premiums written		698,646	695,215		720,788	
Outward reinsurance premiums		(147,082)	(170,461)		(170,354)	
Change in reserve for unearned premiums, net of reinsurance		(18,289)	(98,576)		(27,390)	
Claims incurred, net of reinsurance						
Claims paid, net		(511,436)	(448,881)		(399,551)	
Gross amount		(579,893)	(521,642)		(485,609)	
Reinsurers' share		68,457	72,761		86,058	
Change in claims provision, net of reinsurance		(12,789)	(14,974)		(12,478)	
Commissions, net		(4,117)	(5,011)		(42,777)	
Other income/(expense), net		17,599	122,913		36,825	
Income from non-life insurance business	22,532	80,225	105,063			

NOTE 26 - OTHER LIABILITIES

	2009	2008	2007
Credit card payables	2,231,562	2,053,187	1,896,244
Miscellaneous payables to customers	431,387	212,031	159,728
Blocked accounts	277,609	271,402	179,108
Clearing accounts	185,972	174,087	326,528
Premium and bonuses payable to personnel	130,672	145,594	144,354
Taxes other than income and withholdings	111,371	184,704	145,110
Provision for unused annual vacation	65,720	59,205	42,958
Import deposit and transfer orders	58,188	265,334	231,397
Unearned income	39,037	58,061	24,820
Advances taken	24,921	10,884	16,257
Saving Deposits Insurance Fund payable	15,550	15,490	6,212
Other	544,066	397,709	335,259
Total	4,116,055	3,847,688	3,507,975
Current	4,105,787	3,693,136	3,347,744
Non-current	10,268	154,552	160,231

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 27 - ACQUISITIONS AND MERGERS

(i) Mergers, transfers and acquisitions in the year 2009

As a result of the Extraordinary General Assembly Meetings, dated 30 June 2009, of Yapı Kredi Menkul, and of Unicredit Menkul Değerler A.Ş. ("UCM") it has been decided that Yapı Kredi Menkul's intermediary activities function, which serves corporate clients, was added to UCM's capital as capital in-kind through a partial spin-off over its book values at 31 December 2008. As a result of this operation, the share of YKB in Yapı Kredi Menkul's capital did not change. According to the spin-off agreement, the Bank has acquired a share in UCM share capital (10.73%). The fair value of this business line was TL1,432 thousand and classified as share certificates under available for sale portfolio.

(ii) Mergers, transfers and acquisitions in the year 2008

Nominal share capital amount of TL34,897,132.53 (35.28% of the capital), owned by KFS in Yapı Kredi Menkul have been purchased by YKB in return for USD158,754,689.63 and the cost of the share purchase has been paid to KFS as TL188,617 thousand converted with the CBRT USD exchange rate at 15 February 2008.

Besides, the nominal share capital amount of EUR32,672,880.00 (67.24% of the capital), owned by KFS in Yapı Kredi NV has been purchased by YKB in return for EUR97,502,661.71 and the cost of the share purchase has been paid to KFS as TL165,062 thousand converted with the CBRT EUR exchange buying rate at 11 January 2008.

Since the transactions mentioned above are considered as transactions with minorities the difference between the purchase cost and the net assets acquired is disclosed under "Retained Earnings" line of consolidated statement of changes in shareholders' equity.

(iii) Mergers, transfers and acquisitions in the year 2007

Extraordinary General Assembly meetings regarding the transfer of Koç Yatırım, with all its rights, receivables, liabilities and obligations to the Yapı Kredi Menkul and the consequential dissolution without liquidation were held on 29 December 2006 and the merger was approved on 12 January 2007. As a result of the merger, the Bank's share in Yapı Kredi Menkul has decreased from 99.99% to 64.70%. However, share of Bank's risk Group is 100%.

Regarding the restructuring process of the foreign investments of YKB and KFS, the merger transaction of Yapı Kredi NV, established in Holland and wholly-owned by YKB (through Yapı Kredi Holding B.V. which is a 100% owned investment in associate), with the Koçbank Nederland NV 100% investment in associate of KFS, has been completed as of 2 July 2007. After the merger, regarding the new structure of the partnership, YKB's shareholding ratio is realised as 32.76% and the shareholding ratio of KFS is realised as 67.24%. Due to this merger, the Bank has restated its financial statements as of 31 December 2007.

Besides, as a part of the structural reorganization, transfer of 99.80% the shares of Yapı Kredi Azerbaijan owned by KFS with a nominal value of AZN 6,336,200 has been completed as of 31 October 2007.

During and after transactions stated above, as there has been no change in the owners of final control rights of Yapı Kredi NV, Koçbank Nederland NV and Yapı Kredi Bank Azerbaijan, these transactions have been identified as transactions under common control and recorded in line with the accounting policy defined in Note 2.Q.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 28 - SHARE CAPITAL AND SHARE PREMIUM

The historic amount of share capital of the Company consists of 434,705,128.40 thousand (2008: 434,705,128.40 thousand; 2007: 342,705,128.40 thousand) authorised shares with a nominal value of TL0.01 each. The Company's authorised capital amounts to TL4,347,051 thousand (2008: TL4,347,051 thousand; 2007: TL3,427,051 thousand). In 2008, the Bank increased its issued capital by TL920,000,000 from TL3,427,051,284 to TL4,347,051,284 all in cash within the Bank's registered capital ceiling of TL5,000,000,000.

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

Shareholders	2009		2008		2007	
	Participation rate (%)	TL thousand	Participation rate (%)	TL thousand	Participation rate (%)	TL thousand
Koç Finansal Hizmetler A.Ş.	81.80	3,555,712	81.80	3,555,712	81.79	2,802,933
Other	18.20	791,339	18.20	791,339	18.21	624,118
Historical share capital	100.00	4,347,051	100.00	4,347,051	100.00	3,427,051
Adjustment to share capital		(60,471)		(60,471)		(60,471)
Share premium		535,679		535,679		533,431
Total share capital and share premium		4,822,259		4,822,259		3,900,011

Transfer of the 59.47% of the shares of Yapı Kredi Faktoring with a nominal value of TL9,992,000, 73.10% of the shares of Yapı Kredi Leasing with a nominal value of TL285,048,428 and 99.80% of the shares of Yapı Kredi Bank Azerbaijan with a nominal value of AZN6,336,200; all formerly owned by KFS have been completed as of 31 October 2007. As a part of this share exchange the Bank's capital was increased by TL277,601,284 through increasing the shareholding of KFS. Besides, the difference between the nominal values of the shares issued by the Bank and the fair values of the shares transferred to the Bank amounting to TL495,852 thousand, have been recorded in equity as "Share Premium".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 29 - RETAINED EARNINGS AND OTHER RESERVES

	2009	2008	2007
Statutory reserve	96,245	44,114	17,184
Translation reserves	113,017	112,761	8,803
Revaluation reserve - available-for-sale investments	94,469	16,108	25,797
Hedging reserves	(67,738)	(65,385)	(7,945)
Total other reserves	235,993	107,598	43,839
Retained earnings	3,594,934	2,065,235	829,603

Included in retained earnings are costs directly attributable to the issue of new shares shown in equity as a deduction amounting to TL1,844 thousand during the year 2008.

Movements in other reserves were as follows:

	Statutory reserves	Revaluation reserves	Translation reserves	Hedging reserves	Total
At 1 January 2009	44,114	16,108	112,761	(65,385)	107,598
Net change in available-for-sale Investments, net of tax	-	78,361	-	-	78,361
Gains on hedges of a net investment in a foreign operation	-	-	-	(2,353)	(2,353)
Currency translation differences	-	-	256	-	256
Transfer to statutory reserves	52,131	-	-	-	52,131
At 31 December 2009	96,245	94,469	113,017	(67,738)	235,993
	Statutory reserves	Revaluation reserves	Translation reserves	Hedging reserves	Total
At 1 January 2008	17,184	25,797	8,803	(7,945)	43,839
Net change in available-for-sale Investments, net of tax	-	(9,689)	-	-	(9,689)
Gains on hedges of a net investment in a foreign operation	-	-	-	(57,440)	(57,440)
Currency translation differences	-	-	103,970	-	103,970
Transfer to statutory reserves	26,930	-	-	-	26,930
Purchase from minority interests	-	-	(12)	-	(12)
At 31 December 2008	44,114	16,108	112,761	(65,385)	107,598
	Statutory reserves	Revaluation reserves	Translation reserves	Hedging reserves	Total
At 1 January 2007	17,184	18,379	29,924	(19,194)	46,293
Net change in available-for-sale Investments, net of tax	-	7,372	-	-	7,372
Gains on hedges of a net investment in a foreign operation	-	-	-	11,249	11,249
Currency translation differences	-	-	(27,723)	-	(27,723)
Effect of merged entities under common control (Note 2.Q and 27)	-	46	8,696	-	8,742
Effect of share exchange	-	-	(2,094)	-	(2,094)
At 31 December 2007	17,184	25,797	8,803	(7,945)	43,839

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 29 - RETAINED EARNINGS AND OTHER RESERVES (Continued)

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

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

- a) First legal reserve, appropriated at the rate of 5% of net income, until the total reserve is equal to 20% of issued and fully paid-in share capital.
- b) Second legal reserve, appropriated at the rate of at least 10% of distribution in excess of 5% of issued and fully paid-in share capital, without limit. It may be used to absorb losses.

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

NOTE 30 - NET INTEREST INCOME

	2009	2008	2007
Interest income on:			
Loans and advances:			
- to banks	66,803	133,831	134,204
- to customers	5,283,023	5,365,649	4,161,927
Trading and investment securities	1,422,673	1,575,290	1,782,113
Derivative financial instruments	396,903	82,569	-
Financial leases	254,671	297,227	261,205
Reserve deposits	114,668	218,706	189,073
Other	96,801	63,460	20,166
Total interest income	7,635,542	7,736,732	6,548,688
Interest expense on:			
Due to customers	(2,866,166)	(3,983,091)	(3,357,627)
Other borrowed funds	(477,008)	(578,328)	(447,220)
Derivative financial instruments	(319,171)	(148,337)	(112,858)
Securities issued	(44,863)	(82,530)	(89,931)
Repurchase agreement	(62,832)	(120,044)	(233,020)
Deposits from banks	(28,452)	(154,808)	(22,496)
Other	(2,536)	(850)	(7,864)
Total interest expense	(3,801,028)	(5,067,988)	(4,271,016)
Net interest income	3,834,514	2,668,744	2,277,672

As of 31 December 2009, total interest income on impaired loans is TL62,769 (2008: TL86,635; 2007: TL82,961)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 31 - NET FEE AND COMMISSION INCOME

	2009	2008	2007
Fee and commission income on:			
Credit/debit cards	764,711	775,557	654,509
Banking services	587,524	478,167	338,971
Assets under management	251,363	229,036	186,525
Loans			
- Credit related commitments	213,660	181,364	131,028
- Loans and advances	115,876	86,973	58,968
Brokerage	55,858	31,879	26,959
Insurance products	37,216	25,080	52,311
Factoring	8,947	10,978	11,087
Other	41,064	20,502	25,694
Total fee and commission income	2,076,219	1,839,536	1,486,052
Fee and commission expense on:			
Credit/debit cards	(201,379)	(238,363)	(222,976)
Insurance products	(55,039)	(40,450)	(63,048)
Brokerage	(4,798)	(6,028)	(462)
Factoring	(2,619)	(4,451)	(3,597)
Other borrowed funds	(1,258)	(1,232)	(3,939)
Other	(86,430)	(43,752)	(40,760)
Total fee and commission expense	(351,523)	(334,276)	(334,782)
Net fee and commission income	1,724,696	1,505,260	1,151,270

NOTE 32 - NET TRADING, HEDGING AND FAIR VALUE INCOME

	2009	2008	2007
Foreign exchange:			
- Translation gains less losses of trading securities	7,829	(19)	2,154
- Transaction gains less losses	251,789	95,199	2,967
Interest rate instruments	(155,823)	(43,058)	(20,883)
Equities	15,525	(9,931)	7,123
Net income from financial instruments designated at fair value	(642)	(3,993)	(1,131)
	118,678	38,198	19,047

Foreign exchange net trading income includes gains and losses from spot and forward contracts, options, futures, and translated foreign currency assets and liabilities. Interest rate instruments includes the results of making markets in instruments in government securities, money market instruments, interest rate and currency swaps, options and other derivatives.

Net gains from investment securities amounting to TL33,225 thousand (2008: TL35,574 thousand losses; 2007: TL17,749 thousand losses) comprise of net results on disposals of available for sale financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 33 - OTHER OPERATING EXPENSES

	2009	2008	2007
Staff costs	(1,148,078)	(1,150,268)	(1,017,430)
Depreciation on property and equipment (Note 15)	(145,629)	(126,239)	(132,282)
Amortisation of intangible assets (Note 14)	(38,296)	(40,577)	(34,274)
Depreciation and amortisation	(183,925)	(166,816)	(166,556)
(Impairment charge) / reversal of impairment/ on property and equipment (Note 15)	3,888	(1,841)	1,345
Impairment charge on assets held for resale (Note 16)	-	(522)	(5,566)
Impairment charge	3,888	(2,363)	(4,221)
Rent expenses	(118,609)	(96,122)	(101,320)
Communication expenses	(93,509)	(102,895)	(68,324)
Marketing and advertisement costs	(63,402)	(90,861)	(127,331)
Sundry taxes and duties	(62,396)	(66,852)	(45,309)
Payment to saving deposit insurance fund	(62,073)	(37,989)	(24,917)
Utilities	(36,737)	(30,599)	(28,192)
Repair and maintenance expenses	(28,642)	(36,499)	(22,852)
Audit and consultancy fees	(21,139)	(27,331)	(25,180)
Charity	(377)	(4,245)	(5,308)
Other	(374,062)	(299,406)	(266,039)
General administrative expenses	(860,946)	(792,799)	(714,772)
Total	(2,189,061)	(2,112,246)	(1,902,979)

NOTE 34 -IMPAIRMENT LOSSES ON LOANS AND CREDIT RELATED COMMITMENTS

	2009	2008	2007
Impairment losses on loans and receivables (Note 10)	(1,608,283)	(381,391)	(350,395)
Impairment losses on credit related commitments (Note 23)	(8,243)	(41,827)	28,601
	(1,616,526)	(423,218)	(321,794)

NOTE 35 –EARNINGS PER SHARE

	2009	2008	2007
Profit attributable to equity holders of the Bank	1,581,830	1,366,260	812,474
Weighted average number of ordinary shares in issue (thousand)	434,705,128	346,538,433	320,573,075
Basic earning per share (expressed in TL per 1,000 share)	3.64	3.94	2.53

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 36 - ASSETS PLEDGED AND RESTRICTED

The Group has the following assets pledged as collateral:

	2009		2008		2007	
	Assets	Related liability	Assets	Related liability	Assets	Related liability
Trading securities (Note 8)	66,654	51,748	106,454	89,893	102,027	80,606
Investment securities (Note 11)	1,393,050	1,183,458	2,513,634	1,973,472	3,672,933	2,490,614
Other assets pledged ⁽¹⁾	215,980	-	136,649	-	167,414	-
Total	1,675,684	1,235,206	2,756,737	2,063,365	3,942,374	2,571,220

⁽¹⁾ Other assets pledged are the collaterals given to the counter parties of the interest rate swap transactions whose total contractual amount is TL6,302,306 thousand (2008: TL3,179,352 thousand; 2007: TL1,074,030 thousand) and the additional collaterals given in relation to the funds obtained under repurchase agreements (Note 17).

Available-for-sale and held-to-maturity securities whose total carrying amount is TL1,459,704 thousand as of 31 December 2009 (2008: TL2,620,088 thousand; 2007: TL507,912 thousand) are pledged to banks and other financial institutions against borrowed funds (Note 19) and funds obtained under repurchase agreements (Note 17 and Note 18). Total amount of funds obtained under repurchase agreements is TL1,235,206 thousand as of 31 December 2009 (2008: TL2,063,365 thousand; 2007: TL491,508 thousand). In accordance with the terms of the agreements with these financial institutions ("transferees"), the Bank provides these collaterals (debt instruments as given above) to the transferees and the transferees have the right to sell or repledge the collaterals until the expiry date of the agreements.

Securities are also pledged to regulatory authorities for legal requirements and other financial institutions as a guarantee for stock exchange and money market operations. These are mainly the CBRT, ISE Settlement and Custody Bank and other financial institutions (Note 11).

NOTE 37 - COMMITMENTS AND CONTINGENT LIABILITIES

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

Legal proceedings

Due to the nature of its business, the Group is involved in a number of claims and legal proceedings, arising in the ordinary course of business. The Group recognises provisions for such matters when, in the opinion of management and its professional advisors, it is probable that a payment will be made by the Group, and the amount can be reasonably estimated (Note 23).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 37 - COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Credit related commitments

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

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

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

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

2009⁽¹⁾	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	1,395,290	944,002	398,943	-	2,738,235
Letter of guarantees	7,213,576	2,104,208	3,076,144	902,813	13,296,741
Acceptance credits	151,669	-	-	-	151,669
Other commitments	100,362	77,980	200,309	20,759	399,410
Total	8,860,897	3,126,190	3,675,396	923,572	16,586,055

2008⁽¹⁾	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	1,418,078	904,288	459,198	-	2,781,564
Letter of guarantees	7,275,939	2,059,223	3,324,035	703,146	13,362,343
Acceptance credits	211,367	-	-	-	211,367
Other commitments	27,379	34,442	327,493	55,403	444,717
Total	8,932,763	2,997,953	4,110,726	758,549	16,799,991

⁽¹⁾ Based on original maturities.

2007	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	426	2,000,157	163,556	-	2,164,139
Letter of guarantees	6,354,208	1,465,169	2,907,231	335,435	11,062,043
Acceptance credits	184,493	-	-	-	184,493
Other commitments	48,395	107,642	313,241	135,598	604,876
Total	6,587,522	3,572,968	3,384,028	471,033	14,015,551

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 38 - SEGMENT ANALYSIS

Through its new organisational structure launched in February 2009 aimed at further enhancing the customer-focused divisionalised service model as well as supporting the performances of business units in closer collaboration with product factories, The Group carries out its banking operations through three main business units: (1) retail banking (including credit cards and SME banking), (2) corporate and commercial banking (3) private banking and wealth management.

The Group's retail banking activities include credit cards, SME (small and medium size enterprises) banking and individual banking. Retail banking products and services offered to customers include credit cards, consumer loans (including general purpose loans, auto loans and mortgages), commercial installment loans, SME loans, time and demand deposits, investment accounts, life and non-life insurance products and payroll services. Credit card operations cover the management of products and services for member merchants as well as the sales and marketing operations for a variety of customer types. The clubs and programs under the umbrella of the World brand include Gold Club, Platinum Club, Crystal Club, Travel Club (Travel Program and VIP Travel Program), Adios Card, Play Club (Young Employees Program and Student Program), Business Club (Corporate Program, Trio Program, Company Program and SME Program), Share Program and Communication Program.

Corporate and Commercial Banking is organised into two sub-segments: commercial banking, which serves mid-sized companies; and corporate banking, which serves large multinational companies. Corporate and commercial banking provides products and services including working capital financing, foreign trade finance, project finance, leasing and factoring, domestic and international non-cash credit line facilities such as letters of credit and guarantees, cash management and e-banking services.

Through its private banking and wealth management activities, the Group serves high net worth customers and delivers investment products to this customer segment. Among the products and services offered to private banking customers are time deposits, fiduciary deposits, mutual funds, derivative products such as forwards, futures and options, personal loans, foreign exchange, gold and equity trading, pension plans, insurance products, safe deposit boxes and e-banking services. Private banking services are enhanced by investment advisory and portfolio management services provided by the Group's portfolio management and brokerage subsidiaries.

The Group's widespread branch network and alternative distribution channels including ATMs, telephone banking, internet banking and mobile banking are utilized to serve customers in all segments.

Foreign operations include the Group's banking transactions in the Netherlands, Azerbaijan and Russia.

Other operations mainly consist of treasury transactions, operations of supporting business units, insurance operations and other unallocated transactions.

Chief Operating Decision Maker manages segment performance based on IFRS consolidated figures.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 38 - SEGMENT ANALYSIS (Continued)

2009	Retail Banking	Corporate and Commercial Banking	Private Banking and Wealth Management	Foreign Operations	Other	Eliminations	Group
Segment revenue	2,775,312	1,332,593	363,466	116,403	1,655,245	(249,071)	5,993,948
Segment expenses	(2,356,880)	(461,282)	(107,802)	(52,929)	(1,181,609)	59,151	(4,101,351)
Segment result	418,432	871,311	255,664	63,474	473,636	(189,920)	1,892,597
Operating profit							1,892,597
Share of results of associates							5,417
Profit before tax							1,898,014
Income tax expense							(305,946)
Profit for the year							1,592,068
Segment assets	19,207,596	22,926,250	809,251	3,952,931	24,779,779	(710,435)	70,965,372
Associates							58,939
Total assets							71,024,311
Segment liabilities	20,518,455	15,860,713	9,989,572	3,350,094	13,302,960	(703,886)	62,317,908
Total liabilities							62,317,908
Other segment items							
Capital expenditure					(203,691)		(203,691)
Depreciation and amortisation					(183,925)		(183,925)
Impairment charge					3,888		3,888
Other non-cash expenses					(1,912,290)		(1,912,290)

2008	Retail Banking	Corporate and Commercial Banking	Private Banking and Wealth Management	Foreign Operations	Other	Eliminations	Group
Segment revenue	2,329,407	1,112,725	288,802	93,821	916,727	(186,469)	4,555,013
Segment expenses	(1,299,166)	(291,629)	(117,686)	(57,565)	(1,205,810)	99,560	(2,872,296)
Segment result	1,030,241	821,096	171,116	36,256	(289,083)	(86,909)	1,682,717
Operating profit							1,682,717
Share of results of associates							3,667
Profit before tax							1,686,384
Income tax expense							(316,416)
Profit for the year							1,369,968
Segment assets	18,367,894	23,331,433	551,719	3,920,005	25,055,298	(1,388,648)	69,837,701
Associates							55,593
Total assets							69,893,294
Segment liabilities	19,367,453	18,160,125	8,467,738	3,374,032	14,866,878	(1,381,947)	62,854,279
Total liabilities							62,854,279
Other segment items							
Capital expenditure					(227,083)		(227,083)
Depreciation and amortisation					(166,816)		(166,816)
Impairment charge					(2,363)		(2,363)
Other non-cash expenses					(760,050)		(760,050)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 38 - SEGMENT ANALYSIS (Continued)

2007	Retail Banking	Corporate and Commercial Banking	Private Banking and Wealth Management	Foreign Operations	Other	Eliminations	Group
Segment revenue	2,000,350	914,799	262,009	85,639	654,724	(145,208)	3,772,313
Segment expenses	(378,935)	(116,282)	(44)	(1,645)	(2,076,025)	-	(2,572,931)
Segment result	1,621,415	798,517	261,965	83,994	(1,421,301)	(145,208)	1,199,382
Operating profit							1,199,382
Share of results of associates							1,890
Profit before tax							1,201,272
Income tax expense							(237,677)
Profit for the year							963,595
Segment assets	13,892,627	16,926,273	493,065	2,991,204	21,826,358	(608,327)	55,521,200
Associates							38,220
Total assets							55,559,420
Segment liabilities	14,897,298	14,727,376	5,831,586	2,512,840	13,125,110	(601,464)	50,492,746
Total liabilities							50,492,746
Other segment items							
Capital expenditure					(177,782)		(177,782)
Depreciation and amortisation					(166,556)		(166,556)
Impairment charge					(4,221)		(4,221)
Other non-cash expenses					(669,952)		(669,952)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 39 - RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, The Group is controlled by Koç Group and UCI, owning 50% of the ordinary shares each of KFS.

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

(i) Balances with related parties:

	2009		2008		2007	
	Share in Total	total %	Share in Total	total %	Share in Total	total %
Loans and advances to customers, net	1,073,663	3	595,140	1	633,843	2
Trading and investment securities	22,359	-	76,298	3	-	-
Derivative financial instruments	20,133	3	2,458	1	86	-
Loans and advances to banks	1,423	-	210,261	6	6,702	-
Other assets	139	-	4,473	-	137	-
Total assets	1,117,717		888,630		640,768	
Due to customers	4,270,341	10	4,241,753	10	2,787,117	8
Other borrowed funds	1,167,800	14	1,353,230	14	620,170	8
Derivative financial instruments	3,395	1	9,585	4	32	-
Other liabilities	1,694	-	1,371	-	1,606	-
Deposits from banks	166	-	24,910	2	17,643	1
Total liabilities	5,443,396		5,630,849		3,426,568	
Commitment under derivative instruments	1,088,205	3	711,872	4	188,006	2
Credit related commitments	606,281	4	633,294	4	689,358	5
Total commitments and contingent liabilities	1,694,486		1,345,166		877,364	

(ii) Transactions with related parties:

	2009		2008		2007	
	Share in Total	total %	Share in Total	total %	Share in Total	total %
Interest income on loans and advances to customers	91,771	2	105,898	2	38,805	2
Fee and commission income	27,294	1	10,486	1	5,649	1
Interest income on financial leases	1,414	1	2,689	1	4,134	4
Interest income on loans and advances to banks	14	-	102	-	1,694	3
Other operating income	9	-	1,899	1	428	1
Total interest and fee income	120,502		121,074		50,710	
Interest expense on deposits	(328,426)	11	(447,310)	11	(147,458)	9
Interest expense on funds borrowed	(23,864)	5	(28,409)	4	(3,422)	1
Other operating expense	(8,820)	-	(514)	-	(2,102)	-
Fee and commission expense	(2)	-	(4,131)	1	(48)	-
Total interest and fee expense	(361,112)		(480,364)		(153,030)	

(iii) Balances with directors and other key management personnel:

	2009	2008	2007
Loans and advances to customers, net	177	339	211
Interest income on loans and advances to customers	10	16	22
Due to customers	35,932	25,866	24,880
Interest expense on deposits	369	592	977
Fee and commission income	-	-	3
Commitments and contingent liabilities	-	-	-

Salaries and other benefits paid to the Group's key management approximately amount to TL35,238 thousand as of 31 December 2009 (2008: TL31,304 thousand; 2007: TL41,526 thousand).

Significant part of the related party balances come from "other related parties".

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NOTE 40 - ASSETS UNDER MANAGEMENT

At 31 December 2009, the Group manages 26 open-ended mutual funds (2008: 25; 2007: 22) and 21 private pension funds (2008: 22; 2007: 22), which were established under the Turkish Capital Market Board Regulations.

The details of daily management fee commission rates and net assets values for each fund is as follows:

Name of the Fund	2009 %	2008 %	2007 %	2009 TL	2008 TL	2007 TL
Mutual Funds						
Yapı ve Kredi Bankası A.Ş. B Tipi Likit Fonu	0.0136	0.0125	0.0125	3,439,527	3,397,743	3,682,460
Yapı ve Kredi Yatırım Menkul Değerler A.Ş. B Tipi Likit Fonu	0.0090	0.0090	0.0090	460,822	313,187	367,799
Yapı ve Kredi Bankası A.Ş. B Tipi Değişken Fonu	0.0070	0.0070	0.0070	382,102	257,954	392,053
Yapı ve Kredi Bankası A.Ş. B Tipi Orta Vadeli Tahvil ve Bono Fonu	0.0060	0.0060	0.0060	388,685	180,687	331,445
Yapı ve Kredi Bankası A.Ş. B Tipi %100 Anapara Garantili Gökkuşuğu Yatırım Fonu	-	0.0098	-	-	86,011	-
Yapı Kredi Yatırım Menkul Değerler A.Ş. B Tipi Uzun Vadeli Tahvil ve Bono Fonu	0.0060	0.0060	0.0060	128,173	58,545	211,757
Yapı Kredi Bankası A.Ş. B tipi Özel Bankacılık Değişken Fonu	0.0055	0.0055	0.0055	57,945	40,890	47,111
Yapı ve Kredi Yatırım Menkul Değerler A.Ş. A Tipi Karma Fonu	0.0030	0.0030	0.0030	50,502	38,738	37,374
Yapı ve Kredi Yatırım Menkul Değerler A.Ş. B Tipi Özel Portföy Yönetimi Değişken Fonu	0.0050	0.0050	0.0050	37,107	29,530	93,457
Yapı ve Kredi Bankası A.Ş. B Tipi Büyüme Amaçlı Değişken Fon	0.0070	0.0070	0.0070	76,696	28,020	81,930
Yapı ve Kredi Bankası A.Ş. B Tipi %100 Anapara Garantili Birinci Yatırım Fonu	-	0.0074	-	-	17,510	-
Yapı ve Kredi Bankası A.Ş. A Tipi Özel Bankacılık İMKB Ulusal 30 Endeksi Fonu	0.0028	0.0028	0.0028	13,607	17,147	32,395
Yapı ve Kredi Yatırım Menkul Değerler A.Ş. A Tipi Değişken Fonu	0.0120	0.0120	0.0120	26,492	16,825	22,277
Yapı ve Kredi Bankası A.Ş. B Tipi Özel Bankacılık Büyüme Amaçlı Değişken Fonu	0.0055	0.0055	0.0055	54,342	15,341	66,852
Yapı ve Kredi Bankası A Tipi Hisse Fonu	0.0100	0.0100	0.0100	25,704	14,522	22,388
Yapı ve Kredi Yatırım Menkul Değerler A.Ş. A Tipi İMKB Ulusal 30 Endeks Fonu	0.0120	0.0120	0.0120	17,307	10,583	15,785
Yapı ve Kredi Bankası A.Ş. A Tipi İMKB Ulusal 100 Endeksi Fonu	0.0100	0.0100	0.0100	12,856	6,115	11,995
Yapı ve Kredi Bankası A.Ş. B Tipi Dünya Fonları Fon Sepeti Fonu	0.0014	0.0014	0.0014	8,599	3,883	4,948
Yapı Kredi Yatırım Menkul Değerler A.Ş. A Tipi Özel Portföy Yönetimi Değişken Fonu	0.0080	0.0080	0.0080	3,162	2,525	5,448
Yapı ve Kredi Yatırım Menkul Değerler A.Ş. A Tipi Koç Şirketleri İştirak Fonu	0.0100	0.0100	0.0100	6,916	1,860	4,442
Yapı ve Kredi Bankası A.Ş. A Tipi Karma Fonu	0.0100	0.0100	0.0100	4,503	1,169	1,787
Yapı ve Kredi Bankası A.Ş. B Tipi Tahvil Bono (Eurobond) Fonu	0.0080	0.0080	0.0080	7,750	972	1,171
Yapı ve Kredi Bankası A.Ş. A Tipi Yabancı Menkul Kıymetler Fonu	0.0100	0.0100	0.0100	951	876	354
Yapı ve Kredi Bankası A.Ş. A Tipi Allianz Sigorta Özel Fon	0.0027	0.0027	0.0027	399	219	341
Yapı Kredi Bankası A.Ş. B Tipi Kurumsal Değişken Fon	-	0.0021	-	-	-	-
Yapı ve Kredi Bankası A.Ş. B Tipi %100 Anapara Garantili V Yatırım Fonu	0.0033	-	-	14,471	-	-
Yapı ve Kredi Bankası A.Ş. B Tipi %100 Anapara Garantili Frekans Alt Fonu	0.0001	-	-	11,169	-	-
Yapı ve Kredi Bankası A.Ş. İstanbul Serbest Yatırım Fonu	0.0055	-	-	30,772	-	-
Yapı ve Kredi Bankası A.Ş. B Tipi %100 Anapara Garantili Faiz Frekans Alt Fonu	0.0005	-	-	15,299	-	-
Total mutual funds				5,275,858	4,540,852	5,435,569

YAPI VE KREDİ BANKASI A.Ş.**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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

NOTE 40 - ASSETS UNDER MANAGEMENT (Continued)

Name of the Fund	2009 %	2008 %	2007 %	2009 TL	2008 TL	2007 TL
Pension funds						
Yapı Kredi Emeklilik A.Ş. Gelir Amaçlı Kamu Borçlanma Araçları Emeklilik Yat. Fonu	0.0055	0.0055	0.0055	548,379	373,813	261,887
Allianz Hayat ve Emeklilik A.Ş. Gelir Amaçlı Kamu Borçlanma Araçları Emeklilik Yatırım Fonu	0.0052	0.0052	0.0052	272,382	205,917	155,090
Yapı Kredi Emeklilik A.Ş. Esnek Emeklilik Yatırım Fonu	0.0055	0.0055	0.0055	272,718	185,133	153,788
Yapı Kredi Emeklilik A.Ş. Para Piyasası Likit Kamu Emeklilik Yatırım Fonu	0.0055	0.0055	0.0055	216,793	173,339	111,345
Yapı Kredi Emeklilik A.Ş. Kamu Dış Borçlanma Araçları Yatırım Fonu	0.0055	0.0055	0.0055	162,602	150,105	78,918
Allianz Hayat ve Emeklilik A.Ş. Para Piyasası Likit Kamu Emeklilik Yatırım Fonu	0.0052	0.0052	0.0052	50,748	50,280	23,067
Yapı Kredi Emeklilik A.Ş. Büyüme Amaçlı Hisse Senedi Emeklilik Yat. Fonu	0.0055	0.0055	0.0055	79,957	37,489	48,755
Yapı Kredi Emeklilik A.Ş. Gelir Amaçlı Kamu Borçlanma Araçları (Döviz) Emeklilik Yatırım Fonu	-	0.0055	0.0055	-	19,291	39,151
Allianz Hayat ve Emeklilik A.Ş. Büyüme Amaçlı Esnek Emeklilik Yatırım Fonu	0.0075	0.0075	0.0075	27,566	17,591	16,100
Allianz Hayat ve Emeklilik A.Ş. İhtisaslaşmış İMKB Ulusal 30 Endeksi Emeklilik Yatırım Fonu	0.0082	0.0082	0.0082	34,341	16,548	22,701
Allianz Hayat ve Emeklilik A.Ş. Gelir Amaçlı Kamu Dış Borçlanma Araçları Emeklilik Yatırım Fonu	0.0055	0.0055	0.0055	18,160	14,451	9,936
Allianz Hayat ve Emeklilik A.Ş. Gruplara Yönelik Gelir Amaçlı Kamu Borçlanma Araçları Emeklilik Yatırım Fonu	0.0027	0.0027	0.0034	14,370	7,170	799
Allianz Hayat ve Emeklilik A.Ş. Gelir Amaçlı Kamu Borçlanma Araçları (Döviz End.) Emeklilik Yatırım Fonu	0.0058	0.0058	0.0058	8,504	6,857	4,036
Yapı Kredi Emeklilik A.Ş. Kamu Dış Borçlanma Araçları Emeklilik Yatırım Fonu (Euro)	0.0055	0.0055	0.0055	7,249	4,032	2,433
Allianz Hayat ve Emeklilik A.Ş. Gelir Amaçlı Uluslararası Esnek Emeklilik Yatırım Fonu	0.0055	0.0055	0.0055	4,459	3,983	3,327
Yapı Kredi Emeklilik A.Ş. Esnek (TL) Grup Emeklilik Fonu	0.0028	0.0028	0.0028	14,346	2,547	1,410
Yapı Kredi Emeklilik A.Ş. Para Piyasası Emanet Likit - Karma Emeklilik Yat. Fonu	0.0055	0.0055	0.0055	6,540	2,546	1,174
Yapı Kredi Emeklilik A.Ş. Gelir Amaçlı Uluslararası Karma Emeklilik Yatırım Fonu	0.0055	0.0055	0.0055	2,370	2,073	1,903
Allianz Hayat ve Emeklilik A.Ş. Para Piyasası Emanet Likit Kamu Emeklilik Yatırım Fonu	0.0060	0.0060	0.0060	1,097	560	555
Yapı Kredi Emeklilik A.Ş. Esnek Döviz Grup Emeklilik Yatırım Fonu	0.0028	0.0028	0.0028	1,590	544	180
Allianz Hayat ve Emeklilik A.Ş. Gruplara Yönelik Büyüme Amaçlı Esnek Emeklilik Yatırım Fonu	0.0027	0.0027	0.0041	1,163	364	92
Allianz Hayat ve Emeklilik A.Ş. Gruplara Yönelik Gelir Amaçlı Döviz Cinsi Karma Borçlanma Araçları Emeklilik Yatırım Fonu	0.0027	0.0027	0.0034	199	243	196
Total pension funds				1,745,533	1,274,876	936,843
Total				7,021,391	5,815,728	6,372,412

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTE 41 - POST BALANCE SHEET EVENTS

- 1) At the Board of Directors meeting held on 15 March 2010, the decision was taken to sell the shares of UniCredit Menkul Değerler A.Ş. amounting to 10.73% which are owned by YKB, to KFS in return for TL8,548 thousand in line with the valuation report dated 11 March 2010.
- 2) On 15 March 2010, Board of Directors resolved to sell non-performing loan portfolios of SME loans, retail loans and credit cards through an auction.

As of 28 February 2010:

- i) The retail loan portfolio, amounting to TL74.6 mln, was decided to be sold to Standart Varlık Yönetimi A.Ş. in return for TL6.5 mln.
- ii) The Credit Card portfolio, amounting to TL382.0 mln, was decided to be sold to Girişim Varlık Yönetim A.Ş. in return for TL32.4 mln.
- iii) The SME loan portfolio, amounting to TL224.4 mln, was decided to be sold to LBT Varlık Yönetim A.Ş. in return for TL31.2 mln.

The sale proceeds are expected to be collected by the end of March 2010 and will result in a pretax income of TL3.0 mln after legal expenses which will be booked in YKB's financials as of 31 March 2010 after the finalization of the transaction.

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YAPI VE KREDİ BANKASI A.Ş.

U.S.\$500,000,000 6.75% Notes due 2017

OFFERING MEMORANDUM

6 February 2012

J.P. Morgan

Standard Chartered Bank

UniCredit Bank AG

Joint Lead Managers