

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.

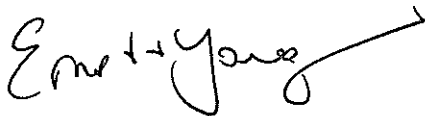
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Yapı ve Kredi Bankası A.Ş.

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Yapı ve Kredi Bankası A.Ş.

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.

Yapı ve Kredi Bankası A.Ş.

**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.

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.)

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
Enternasyonel Turizm Yatırım A.Ş. ("Enternasyonel")	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
Enternasyonel	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		2009		2008
					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) 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.

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)

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 (%)	Control rate (%)	Effective rate (%)	Control rate (%)	Effective rate (%)	Control rate (%)
Yapı Kredi Koray Gayrimenkul Yatırım Ortaklığı A.Ş.	Turkey	REIT	TL	30.45	30.45	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.

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.

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).

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			Total	December 31,	December 31,
	Past due Up to 30 days	Past due 30 - 60 days	Past due 60 - 90 days		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
Credit cards	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.

Notes to the consolidated financial statements at December 31, 2010

(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

Notes to the consolidated financial statements at December 31, 2010

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

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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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 ⁽¹⁾	78,028	107,545	55,048

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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

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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.

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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

			Foreign currency		TL	Total
	USD	EUR	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	12,891,726	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).

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

4. Financial risk management (continued)

December 31, 2009

	Foreign currency					Total
	USD	EUR	Other	Total	TL	
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.

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

4. Financial risk management (continued)

December 31, 2008

	USD	EUR	Foreign currency		TL	Total
			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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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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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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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

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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

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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.

Change in interest rate	December 31, 2010	December 31, 2009	December 31, 2008
	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

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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.

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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

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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%.

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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.

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:

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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.

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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.

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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	16,077	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.

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.)**8. Derivative financial instruments and hedging activities (continued)****December 31, 2010**

	Contract/ notional amount (aggregate of buy and sell)	Assets	Fair values Liabilities
<i>Derivatives held for trading</i>			
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
<i>Derivatives used for hedging</i>			
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

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.)

8. Derivative financial instruments and hedging activities (continued)**December 31, 2009**

	Contract/ notional amount (aggregate of buy and sell)	Assets	Fair values 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 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
<i>Derivatives used for hedging</i>			
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
<i>Derivatives held for trading</i>			
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
<i>Derivatives used for hedging</i>			
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

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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.

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(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.

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(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

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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.

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(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

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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

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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

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(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

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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
Repossessed 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

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16. Other assets (continued)

Repossessed 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	-	-	-	-	-	-

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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	2,765,429	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			
Interbank money market	1,439,039	1,077,640	883,428
	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:

	2010	2009	2008	Average interest rate		
				2010	2009	2008
						(%) ⁽¹⁾
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)

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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.

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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

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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

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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

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.)

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

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.)

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
- Pension benefits transferable to SSI	1,183,532	1,077,965	1,036,138
- Post-employment medical benefits transferable to SSI	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%

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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.

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.)

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.

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.)**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

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Notes to the consolidated financial statements at December 31, 2010

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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 1 January 1, 2008.

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.)

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:

Shareholders	December 31, 2010		December 31, 2009		December 31, 2008	
	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	81.80	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.

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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.

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.)

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

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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.

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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)

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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.

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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.

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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.

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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.

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38. Segment analysis (continued)

	Retail banking	Corporate and commercial banking	Private banking and wealth management	Foreign operations	Other ^(*)	Eliminations	Group
December 31, 2009							
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.

	Retail banking	Corporate and commercial banking	Private banking and wealth management	Foreign operations	Other ^(*)	Eliminations	Group
December 31, 2008							
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.

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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)	

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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.

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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.