Yapı ve Kredi Bankası A.Ş.

Consolidated financial statements at December 31, 2011 together with independent auditor's report

Ernst & Young

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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, 2011 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, 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

March 6, 2012
Istanbul, Turkey

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Consolidated statement of financial position as at December 31, 2011

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

	Note	December 31, 2011	December 31, 2010	December 31, 2009
Assets				
Cash and balances with central banks	5	10,081,703	6,034,426	4,229,335
Loans and advances to banks	6	5,115,592	3,372,107	3,796,084
Financial assets held for trading				
- Trading securities	7	282,212	376,591	365,923
- Derivative financial instruments	7-8	268,159	693,524	617,704
Loans and advances to customers	9	73,907,771	57,804,154	42,137,597
Hedging derivatives	8	377,335	38,201	128,631
Investment securities				
- Available-for-sale	10	8,017,601	5,881,756	2,029,573
- Held-to-maturity	10	12,710,622	12,974,944	13,318,719
Investment in associates and joint ventures accounted for using the equity method	11-12	203,590	94,171	83,622
Goodwill	13	1,023,528	1,023,528	1,023,528
Other intangible assets	14	304,763	263,667	216,441
Property and equipment	15	1,068,137	1,163,080	1,156,183
Deferred income tax assets	21	551,735	476,189	482,803
Other assets	16	2,143,970	1,613,895	1,149,887
Total assets		**116,056,718**	**91,810,233**	**70,736,030**
Liabilities				
Deposits from banks	17	7,457,384	4,935,470	2,432,179
Customer deposits	18	64,653,879	53,490,950	42,181,386
Funds borrowed	19	18,167,898	12,614,942	8,631,136
Debt securities in issue	20	3,248,717	1,394,904	1,744,478
Derivative financial instruments	8	540,339	359,168	268,515
Current income taxes payable		112,576	122,526	69,036
Deferred income tax liabilities	21	-	2,132	13
Hedging derivatives	8	502,841	453,663	357,613
Other provisions	22	465,837	457,185	397,871
Retirement benefit obligations	23	889,269	939,736	964,541
Insurance technical reserves	24	1,063,894	930,707	866,804
Other liabilities	25	6,021,041	5,165,086	4,116,055
Total liabilities		**103,123,675**	**80,866,469**	**62,029,627**
Equity				
Share capital and share premium	27	4,822,259	4,822,259	4,822,259
Other reserves	28	644	306,192	235,993
Retained earnings	28	8,047,016	5,756,268	3,594,934
Equity attributable to equity holders of the parent		**12,869,919**	**10,884,719**	**8,653,186**
Equity attributable to non-controlling interests		63,124	59,045	53,217
Total equity		**12,933,043**	**10,943,764**	**8,706,403**
Total liabilities and equity		**116,056,718**	**91,810,233**	**70,736,030**

The accompanying notes set out on pages 6 to 111 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, 2011
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	December 31, 2011	December 31, 2010	December 31, 2009
Interest income	29	7,961,504	6,616,135	7,635,542
Interest expense	29	(4,733,795)	(3,333,697)	(3,801,028)
Net interest income		**3,227,709**	**3,282,438**	**3,834,514**
Fee and commission income	30	2,507,085	2,218,432	2,076,219
Fee and commission expense	30	(451,348)	(348,479)	(351,523)
Net fee and commission income		**2,055,737**	**1,869,953**	**1,724,696**
Foreign exchange gains, net		118,440	91,372	130,623
Net trading, hedging and fair value income / (loss)	31	38,942	(25,458)	118,678
Gains from investment securities, net	31	47,353	97,153	33,225
Insurance technical income, net	24	157,365	116,165	22,532
Other operating income		207,934	261,172	136,351
Operating income		**5,853,480**	**5,692,795**	**6,000,619**
Impairment losses on loans, investment securities and credit related commitments, net	33	(325,414)	(393,131)	(1,616,526)
(Provision) / reversal for retirement benefit obligations	23	25,933	6,318	(110,302)
Other provisions	22	(121,233)	(188,982)	(185,462)
Other operating expenses	32	(2,503,622)	(2,324,441)	(2,189,061)
Operating profit		**2,929,144**	**2,792,559**	**1,899,268**
Share of profit/(loss) of associates and joint ventures accounted for using the equity method	11-12	14,420	6,326	(1,254)
Profit before income tax		**2,943,564**	**2,798,885**	**1,898,014**
Income tax expense	21	(543,127)	(563,151)	(305,946)
Profit for the year		**2,400,437**	**2,235,734**	**1,592,068**
Attributable to:				
Equity holders of the parent		2,393,762	2,229,073	1,581,830
Non-controlling interest		6,675	6,661	10,238
		2,400,437	**2,235,734**	**1,592,068**
Basic and diluted earnings per share attributable to the equity holders of the parent (expressed in TL per thousand share)	34	5.51	5.13	3.64

The accompanying notes set out on pages 6 to 111 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, 2011

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

	Note	December 31, 2011	December 31, 2010	December 31, 2009
Profit for the year		**2,400,437**	**2,235,734**	**1,592,068**
Exchange differences on translation of foreign operations		141,035	(7,886)	256
Net gains / (losses) on available-for-sale financial assets				
- Unrealised net gains / (losses) arising during the year, before tax		(319,087)	121,518	87,578
- Net amount reclassified to the statement of income, before tax		(841)	(559)	(8,032)
Net investment hedges				
- Net gains (losses) arising on hedges recognized in other comprehensive income, before tax		(88,958)	19,484	(2,941)
- 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		- (444,372)	- (192,346)	- -
- Net amount reclassified to the statement of income, before tax		185,994	65,061	-
Income tax relating to components of other comprehensive income	21	**116,879**	**(2,952)**	**(103)**
Other comprehensive income for the year, net of tax		**(409,350)**	**2,320**	**76,758**
Total comprehensive income for the year		**1,991,087**	**2,238,054**	**1,668,826**
Total comprehensive income attributable to:				
Equity holders of the parent (total)		1,985,200	2,231,533	1,658,094
Non-controlling interest (total)		5,887	6,521	10,732

The accompanying notes set out on pages 6 to 111 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity for the year ended December 31, 2011

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

		Attributable to equity holders of the parent						
	Note	Share capital	Share premium	Other reserves (Note 28)	Retained earnings (Note 28)	Total	Non-controlling interest	Total equity
Balance at January 1, 2009		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	28	-	-	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	28	-	-	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
Total comprehensive income for the year		-	-	(408,562)	2,393,762	1,985,200	5,887	1,991,087
Dividends paid		-	-	-	-	-	(1,808)	(1,808)
Transfer to statutory reserves	28	-	-	103,014	(103,014)	-	-	-
Balance at December 31, 2011		4,286,580	535,679	644	8,047,016	12,869,919	63,124	12,933,043

The accompanying notes set out on pages 6 to 111 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows
for the year ended December 31, 2011
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	December 31, 2011	December 31, 2010	December 31, 2009
Cash flows from operating activities				
Net profit		2,400,437	2,235,734	1,592,068
Adjustments for:				
Unrealized (gain) / loss on financial assets held for trading, net		32,091	(7,263)	(12,835)
Allowances for losses on loans, investment securities and credit related commitments	33	325,414	393,131	1,616,526
Measurement of derivative financial instruments at fair value		316,580	201,313	92,662
Share of profit of associates and joint ventures	11-12	(14,420)	(6,326)	1,254
Amortization of other intangible assets	32	60,024	46,089	38,296
Depreciation of property and equipment	32	154,491	142,667	145,629
(Reversal of) impairment charge on property and equipment	32	(98,763)	(52,942)	(3,888)
(Reversal of) impairment charge on intangible assets	32	-	(2,770)	-
Provision for current and deferred income taxes	21	543,127	563,151	305,946
Other provisions	22	121,233	188,982	185,462
Provision / (reversal) for retirement benefit obligations	23	(25,933)	(6,318)	110,302
Other liabilities		10,696	(15,621)	(7,246)
Unearned commission income		41,253	10,317	(19,024)
Dividend income		(5,891)	(1,083)	(3,403)
Interest income, net	29	(3,227,709)	(3,282,438)	(3,834,514)
Interest paid		(4,519,465)	(3,285,930)	(4,036,179)
Interest received		7,720,985	6,364,978	7,871,848
Effect of exchange rates on financing activities		3,022,842	(288,203)	46,593
Other, net		(178,485)	192,451	(210,397)
Cash flows from operating profits before changes in operating assets and liabilities		**6,678,507**	**3,389,919**	**3,879,100**
Changes in operating assets and liabilities:				
Net decrease / (increase) in cash balances with central banks		(1,359,369)	(789,388)	226,458
Net decrease / (increase) in loans and advances to banks		750,344	(609,275)	1,043,986
Net decrease / (increase) in trading securities		62,288	(3,405)	7,901
Net decrease / (increase) in loans and advances to customers		(16,034,387)	(15,999,242)	(1,383,655)
Net (increase) / decrease in other assets		(2,002,648)	(502,181)	23,985
Net increase / (decrease) in deposits from banks		2,503,532	2,870,262	1,133,647
Net (decrease) / increase in customer deposits		11,026,605	11,301,385	(1,379,018)
Net increase / (decrease) in other liabilities and provisions		315,449	966,486	158,147
Income taxes paid		(513,876)	(503,047)	(419,094)
Net cash from / (used in) operating activities		**1,426,445**	**121,514**	**3,291,457**
Cash flows from investing activities				
(Purchase of) property and equipment	15	(143,277)	(144,172)	(122,275)
Net book value of property and equipment disposed	15	185,342	47,880	39,876
(Purchase of) intangible assets, net	14	(100,693)	(90,540)	(75,321)
(Purchase of) held-to-maturity securities	10	(563,716)	(3,020,222)	(2,008,035)
Redemption or sale of held-to-maturity securities	10	2,501,567	3,383,510	1,139,115
(Purchase of) available-for-sale securities	10	(4,462,379)	(9,624,918)	(17,563,113)
Sale or redemption of available-for-sale securities	10	2,119,598	5,900,619	17,467,940
Dividends received		5,891	1,083	3,403
Other, net		(12,728)	331	17,403
Net (used in) investing activities		**(470,395)**	**(3,546,429)**	**(1,101,007)**
Cash flows from financing activities				
(Repayments of) borrowed funds and debt securities		(7,264,301)	(7,893,237)	(5,486,363)
Proceeds from borrowed funds and debt securities		11,200,903	11,412,846	4,697,611
Dividend paid to minority		(1,808)	(693)	(1,438)
Net cash from / (used in) financing activities		**3,934,794**	**3,518,916**	**(790,190)**
Net increase / (decrease) in cash and cash equivalents		**4,890,844**	**94,001**	**1,400,260**
Effects of foreign exchange rate changes on cash and cash equivalents		653,549	(54,185)	32,709
Cash and cash equivalents at beginning of year	5	6,403,396	6,363,580	4,930,611
Cash and cash equivalents at end of year	**5**	**11,947,789**	**6,403,396**	**6,363,580**

The accompanying notes set out on pages 6 to 108 form an integral part of these consolidated financial statements.

1. General information

Yapı ve Kredi Bankası A.Ş. ("YKB", the "Parent Bank" or the "Bank" or together with its subsidiaries it is referred to as "the Group" in these consolidated financial statements) was established with the permission of the Council of Ministers of the Republic of Turkey No.3/6710 on September 9, 1944 as a private capital commercial bank, authorized to perform all banking, economic, financial and commercial activities which are allowed by Turkish laws. The statute of the Bank has not changed since its in corporation. 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 ("UCG") 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 UCG over KFS.

The Bank's shares have been traded on the Istanbul Stock Exchange ("ISE") since 1987. As of December 31, 2011, 18.20% of the shares of the Bank are publicly traded (2010 - 18.20%; 2009 - 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, 2011, the Group has 17,306 employees (2010 - 16,780 employees; 2009 - 16,713 employees). The Bank has 906 branches operating in Turkey and 1 branch in an off-shore region (2010 - 867 branches operating in Turkey, 1 branch in an off-shore region; 2009 - 837 branches operating in Turkey, 1 branch in an off-shore region and 1 representative office) and 14,859 employees (2010 - 14,411 employees; 2009 - 14,333 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, 2011 have been approved for issue by the Board of Directors on March 6, 2012.

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.

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 in the preparation of the consolidated financial statements as at December 31, 2011 are consistent with those followed in the preparation of the consolidated financial statements of the prior year, except for the adoption of new standards and IFRIC interpretations summarized below. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs. These standards and interpretations did not have significant effect on the Group's financial position.

The new standards, amendments and interpretations which are effective as at January 1, 2011 are as follows:

- IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction- Prepayments of a Minimum Funding Requirement (Amended)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- IAS 32 Financial Instruments: Presentation - Classifications on Rights Issues (Amended)
- IAS 24 Related Party Disclosures (Revised)

In May 2010 the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The amendments that are effective as at January 1, 2011 are as follows:

IFRS 3 Business Combinations
IFRS 7 Financial Instruments: Disclosures
IAS 1 Presentation of Financial Statements
IAS 27 Consolidated and Separate Financial Statements
IAS 34 Interim Financial Reporting
IFRIC 13 Customer Loyalty Programmes

2. Summary of significant accounting policies (continued)

Standards issued but not yet effective and not early adopted

IAS 1 Presentation of Financial Statements (Amended) – Presentation of Items of Other Comprehensive Income

The amendments are effective for annual periods beginning on or after July 1, 2012, but earlier application is permitted. The amendments to IAS 1 change only the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time would be presented separately from items which will never be reclassified. The amendments will be applied retrospectively. This standard has not yet been endorsed by the EU. The amendment affects presentation only and will have no impact on the financial position or performance of the Group.

IAS 12 Income Taxes: Recovery of Underlying Assets (Amendment)

The amendments are mandatory for annual periods beginning on or after January 1, 2012, but earlier application is permitted. IAS 12 has been updated to include i) a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale and ii) a requirement that deferred tax on non-depreciable assets, measured using the revaluation model in IAS 16, should always be measured on a sale basis. These amendments will be applied retrospectively. This standard has not yet been endorsed by the EU. The Group does not expect that this amendment will have significant impact on the financial position or performance of the Group.

IAS 19 Employee Benefits (Amended)

Amended standard is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. With very few exceptions retrospective application is required. Numerous changes or clarifications are made under the amended standard. Among these numerous amendments, the most important changes are removing the corridor mechanism and making the distinction between short-term and other long-term employee benefits based on expected timing of settlement rather than employee entitlement. This standard has not yet been endorsed by the EU. The Group is in the process of assessing the impact of the amended standard on the financial position or performance of the Group.

IAS 27 Separate Financial Statements (Amended)

As a consequential amendment to IFRS 10 and IFRS 12, the IASB also amended IAS 27, which is now limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. Transitional requirement of this amendment is similar to IFRS 10. This standard has not yet been endorsed by the EU.

IAS 28 Investments in Associates and Joint Ventures (Amended)

As a consequential amendment to IFRS 11 and IFRS 12, the IASB also amended IAS 28, which has been renamed IAS 28 Investments in Associates and Joint Ventures, to describe the application of the equity method to investments in joint ventures in addition to associates. Transitional requirement of this amendment is similar to IFRS 11. This standard has not yet been endorsed by the EU. The Group does not expect that this amendment will have any impact on the financial position or performance of the Group.

2. Summary of significant accounting policies (continued)

IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amended)

The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. This standard has not yet been endorsed by the EU. These amendments are to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Group does not expect that these amendments will have significant impact on the financial position or performance of the Group.

IFRS 7 Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements (Amended)

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. This amendment has not yet been endorsed by the EU. The amendment is effective for annual periods beginning on or after July 1, 2011. Comparative disclosures are not required. The amendment affects disclosures only and will have no impact on the financial position or performance of the Group.

IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities (Amended)

New disclosures would provide users of financial statements with information that is useful in (a) evaluating the effect or potential effect of netting arrangements on an entity's financial position and (b) analysing and comparing financial statements prepared in accordance with IFRSs and other generally accepted accounting standards. This standard has not yet been endorsed by the EU. The amendments are to be retrospectively applied for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods. The amendment affects disclosures only and will have no impact on the financial position or performance of the Group.

IFRS 9 Financial Instruments – Classification and measurement

As amended in December 2011, the new standard is effective for annual periods beginning on or after January 1, 2015. Phase 1 of this new IFRS introduces new requirements for classifying and measuring financial instruments. The amendments made to IFRS 9 will mainly affect the classification and measurement of financial assets and measurement of fair value option (FVO) liabilities and requires that the change in fair value of a FVO financial liability attributable to credit risk is presented under other comprehensive income. Early adoption is permitted. This standard has not yet been endorsed by the EU. The Group is in the process of assessing the impact of the new standard on the financial position or performance of the Group.

2. Summary of significant accounting policies (continued)

IFRS 10 Consolidated Financial Statements

The standard is effective for annual periods beginning on or after January 1, 2013 and is applied on a modified retrospective basis. This new Standard may be adopted early, but IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities should be also adopted early.

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. A new definition of control is introduced, which is used to determine which entities are consolidated. This is a principle based standard and require preparers of financial statements to exercise significant judgment. This standard has not yet been endorsed by the EU. The Group is in the process of assessing the impact of the new standard on the financial position or performance of the Group.

IFRS 11 Joint Arrangements

The standard is effective for annual periods beginning on or after January 1, 2013 and is applied on a modified retrospective basis. This new Standard may be adopted early, but IFRS 10 Consolidated Financial Statements and IFRS 12 Disclosure of Interests in Other Entities should be also adopted early.

The standard describes the accounting for joint ventures and joint operations with joint control. Among other changes introduced, under the new standard, proportionate consolidation is not permitted for joint ventures. This standard has not yet been endorsed by the EU. The Group does not expect that this standard will have a significant impact on the financial position or performance of the Group.

IFRS 12 Disclosure of Interests in Other Entities

The standard is effective for annual periods beginning on or after January 1, 2013 and is applied on a modified retrospective basis. This new Standard may be adopted early, but IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements should be also adopted early.

IFRS 12 includes all of the disclosures that were previously in IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 Interests in Joint Ventures and IAS 28 Investment in Associates. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. This standard has not yet been endorsed by the EU. Under the new standard the Group will provide more comprehensive disclosures for interests in other entities.

IFRS 13 Fair Value Measurement

The new Standard provides guidance on how to measure fair value under IFRS but does not change when an entity is required to use fair value. It is a single source of guidance under IFRS for all fair value measurements. The new standard also brings new disclosure requirements for fair value measurements. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 and will be adopted prospectively. Early application is permitted. The new disclosures are only required for periods beginning after IFRS 13 is adopted - that is, comparative disclosures for prior periods are not required. This standard has not yet been endorsed by the EU. The Group is in the process of assessing the impact of the new standard on the financial position or performance of the Group.

2. Summary of significant accounting policies (continued)

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

The interpretation is not applicable for the Group and will not have any impact on the financial position or performance of the Group.

B. Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries for the year ended December 31, 2011. 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.

Prior to January 1, 2010, in comparison to the above mentioned requirements which were applied on 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.

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

2. Summary of significant accounting policies (continued)

The list of principal subsidiaries at December 31, 2011, 2010 and 2009 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")

	2011		2010		2009	
Name of subsidiary	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.

(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, 2011, 2010 and 2009 are as follows:

					2011		2010		2009
Name of associate	Country of incorporation	Nature of business	Original currency	Control rate (%)	Effective rate (%)	Control rate (%)	Effective rate (%)	Control rate (%)	Effective rate (%)
Banque de Commerce et de Placements ("Banque de Commerce")	Switzerland	Banking	CHF	30.67	30.67	30.67	30.67	30.67	30.67

(c) 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.

(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, 2011, 2010 and 2009 are as follows:

					2011		2010		2009
Name of joint venture	Country of incorporation	Nature of business	Original currency	Control rate (%)	Effective rate (%)	Control rate (%)	Effective rate (%)	Control rate (%)	Effective 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 39.

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 and 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,

2. Summary of significant accounting policies (continued)

(ii) income and expenses for each statement of income are translated at average exchange rates.

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 38).

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.

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 interest 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.

There are no financial assets that were previously classified as held-to-maturity but cannot be subject to this classification for two years due to breach of classification principles. In accordance with IAS 39, the sales or reclassifications to available-for-sale portfolio of financial assets that are insignificant or so close to maturity or the financial asset's call date will not result in tainting.

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.

2. Summary of significant accounting policies (continued)

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.

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, investment securities 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.

2. Summary of significant accounting policies (continued)

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.

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.

2. Summary of significant accounting policies (continued)

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.

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.

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.

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.

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.

2. Summary of significant accounting policies (continued)

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.

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 32).

(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.

(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 21).

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:

	2011		2010		2009	
	Employer (%)	Employee (%)	Employer (%)	Employee (%)	Employer (%)	Employee (%)
Retirement benefit contributions	12	9	12	9	12	9
Medical benefit contributions	7.5	5	7.5	5	7.5	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 23). The pension disclosures set out in Note 23 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.

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.

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.I). 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, investment securities 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 no 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.

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. In order to determine the amount of outstanding claim reserves for claim files pending outcome of litigation process, 5 years of past historical data in the same line of business is taken into consideration.

(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.

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) 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.

(viii) 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 4.66% and the persistency rate of pension contract holders.

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 34.

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, 2011 consolidated financial statements.

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 264,720 (2010 - increase by TL 766,537 TL; 2009 - increase by TL 663,481), with a corresponding entry in the available-for-sale revaluation reserve in equity (Note 4.F).

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 81,343 (2010 - TL 85,398; 2009 - TL 124,489) higher or lower. The Group calculates collective (IBNR) provision with intrinsic elements such as loss confirmation periods, probability of default and loss given defaults along with expert views. Taking into consideration the historical loss experience, the Bank has reassessed the parameters for different segments. As of December 31, 2011, as a result of such reassessment, TL 106 million is recorded as income. As a result of changes in the internal composition of the loan portfolio in the 2010, the Group 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.

Tax legislation

Turkish tax legislation is subject to varying interpretations as disclosed in Note 21.

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 23. 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 Executive Committee and the other individual risk committees covering credit, market and operational risks and are an integral part of ensuring the Group's fulfillment of requirements stipulated by the Banking Law in a manner consistent with shareholders' risk appetites. The risk management function is responsible for: (1) maximizing returns on invested capital and maintaining sustainable growth of profitability (2) monitoring trends in risk exposures and communicating irregularities promptly to senior management (3) monitoring asset and liability profiles for rebalancing actions on a timely basis (4) identifying and classifying the risk structures of products, processes and services (5) developing and validating the credit rating/scoring models and (6) ensuring compliance with Basel II requirements and Banking Law.

A. Credit risk

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. Credit risk arises mainly from commercial and consumer loans and advances, credit cards and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as financial guarantees, letters of credit, endorsements and acceptances.

The Group is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets, derivatives, reverse repos and settlement balances with market counterparties.

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 to ensure the risk profile is coherent with the risk appetite and reputational risk of the Bank (e.g. on the basis of minimum requirements in terms of granting, monitoring, work-out procedures, pilot phase definition, regular performance measurement, sustainable and sound introduction and growth criteria, etc.);

(e) enhancement and monitoring of the rating and scoring models (probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD") as well as pricing models for all segments. This includes:

  - methodological documentation,
  - technical specification for IT implementation and support to local use,
  - definition of process guidelines regarding models usage and use tests,
  - validation,
  - definition of rating override process,
  - definition of credit data warehouse,
  - cooperation with UniCredit Group for internal validation and credit risk Value-at-Risk ("VaR") model development and calculation;

(f) preparation of credit risk budget in line with predefined lending targets;

(g) calculation of Cost of Risk and related provisions by segments to better assess the riskiness of loan portfolio for maintaining the asset quality;

(h) definition of provisioning methodologies in line with BRSA and IFRS requirements.

Credit policies reflect the general credit risk principles to be followed throughout the Group's lending activities and the related strategies and goals, as well as shareholders' risk appetites. The credit policy guideline is prepared by the Group's credit risk management department and approved by the Board of Directors.

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

4. Financial risk management (continued)

Parent Bank rating system:

The strategy of the Bank is to develop rating/scoring models in house. For this aim, Credit Rating Model Development unit has been established and all models since 2009 have been developed internally.

In 2011, 20 different rating models developed internally are in use for different clients.

For corporate & commercial clients, integrated with the underwriting process, the Bank's internal rating model calculates ratings 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). The outcomes of the grading system reflect the riskiness of each rated customer. Second generation of rating model for this segment was implemented in 2011.

The Bank's rating tool concentration by risk classes as of December 31, 2011, 2010 and 2009 is as follows:

		Concentration level (%)		
	Rating class (1)	2011	2010	2009
Above average	1-4	35.9	31.2	30.3
Average	5+ - 6	51.0	47.9	47.9
Below average	7+ - 9	13.1	20.9	21.8

(1) For corporate and commercial clients that are rated individually only

Scoring models are also used throughout the granting, limit management and monitoring/collection processes for consumer loans and credit cards segment.

Third generation of application scorecard has also been developed to evaluate SME clients in 2011 with an increased performance compared to previous model.

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, 2011:

	December 31, 2011		December 31, 2010		December 31, 2009	
Group's rating	Loans and advances %	Provision coverage %	Loans and advances %	Provision coverage %	Loans and advances %	Provision coverage %
1. Performing loans	94.80	1.02	93.31	1.20	88.03	1.54
2. Watch-listed	2.13	4.50	3.11	5.81	5.71	8.03
3. Legal follow-up	3.07	66.37	3.58	74.19	6.26	80.62
	100.00	3.10	100.00	3.96	100.00	6.86

(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 (including past due watch-listed loans) are as follows;

	December 31, 2011					
	Past due Up to 30 days	Past due 30 - 60 days	Past due 60 - 90 days	Total	December 31, 2010 Total	December 31, 2009 Total
Corporate	2,282,721	444,659	149,887	**2,877,267**	**1,359,382**	**2,253,048**
Consumer	4,701	161,509	55,268	**221,478**	**886,457**	**813,104**
Credit cards	538,135	174,433	71,918	**784,486**	**849,072**	**1,011,165**
Leasing	7,198	7,409	6,595	**21,202**	**13,664**	**12,609**
	2,832,755	**788,010**	**283,668**	**3,904,433**	**3,108,575**	**4,089,926**

Watch list category is defined as the clients with payments past due 30 to 90 days and clients with "watch listing" request from "monitoring systems" who needs close monitoring even though not past due but due to other subjective criterias by the approval of monitoring departments.

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 non-performing loan accounts that loan will continue to stay at least 6 more months in non-performing 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, 2011, the total amount of restructured loans included in legal follow up during the year is TL 232,219 (2010 - TL 125,709; 2009 - TL 103,067)

Restructuring policies and practices are consistent with the requirements of the BRSA.

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

4. Financial risk management (continued)

Maximum exposure to credit risk

	2011	2010	2009
Credit risk exposures relating to assets on-statement of financial position:			
Loans and advances to banks	5,115,592	3,372,107	3,796,084
Loans and advances to customers			
- Credit cards	10,366,740	8,492,296	7,261,231
- Consumer	13,641,075	9,781,173	7,061,502
- Corporate	45,335,595	35,733,400	24,225,811
- Leasing	2,780,375	1,978,899	2,169,054
- Factoring	1,783,986	1,818,386	1,419,999
Financial assets held for trading:			
- Securities	282,212	376,591	365,923
- Derivative financial instruments	268,159	693,524	617,704
Hedging derivatives	377,335	38,201	128,631
Investment securities			
- Available-for-sale	8,017,601	5,881,756	2,029,573
- Held-to-maturity	12,710,622	12,974,944	13,318,719
Other assets	1,983,340	1,475,245	1,040,050
Credit risk exposures relating to off-statement of financial position items:			
Credit related commitments	23,821,697	18,947,336	15,821,910
Other	2,550,812	745,217	551,079

The above table represents a worst case scenario of credit risk exposure in the absence of any collateral or credit enhancements.

(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 UCG 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	5,115,592	-	-	-	-	-	-	5,115,592
Loans and advances to customers	1,212,937	17,228,934	418,447	3,335,881	1,471,372	26,232,380	24,007,820	73,907,771
Trading securities – debt securities	55,020	-	-	2,340	224,852	-	-	282,212
Derivative financial instruments	79,263	150,623	-	-	-	9,752	28,521	268,159
Hedging derivatives	377,335	-	-	-	-	-	-	377,335
Investment securities – debt securities	1,612,139	2,932	-	702	19,085,500	3,199	-	20,704,472
Other assets	1,325,122	-	-	-	8,580	702,340	107,928	2,143,970
As of December 31, 2011	**9,777,408**	**17,382,489**	**418,447**	**3,338,923**	**20,790,304**	**26,947,671**	**24,144,269**	**102,799,511**
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**
Letter of guarantees	1,729,615	6,409,841	310,303	1,333,993	-	9,030,825	136	18,814,713
Letter of credits	598,527	3,640,435	35,783	414,298	-	317,941	-	5,006,984
Acceptance credits	-	121,229	-	11,549	-	26,137	-	158,915
Other commitments and contingencies	92,085	1,259,222	26,066	205,352	-	809,172	-	2,391,897
As of December 31, 2011	**2,420,227**	**11,430,727**	**372,152**	**1,965,192**	**-**	**10,184,075**	**136**	**26,372,509**
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**

(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	9,734,705	-	254,901	92,097	10,081,703
Loans and advances to banks	3,750,565	3,259	792,566	569,202	5,115,592
Financial assets held for trading					
-Trading securities	279,566	-	2,646	-	282,212
-Derivative financial instruments	179,885	-	70,575	17,699	268,159
Hedging derivatives	-	-	377,335	-	377,335
Loans and advances to customers, net					
- Credit cards	10,365,794	-	-	946	10,366,740
- Consumer	13,580,758	-	-	60,317	13,641,075
- Corporate	42,797,816	29,602	788,018	1,720,159	45,335,595
- Leasing	2,712,492	-	13,603	54,280	2,780,375
- Factoring	1,783,986	-	-	-	1,783,986
Investment securities					
- Available-for-sale	6,379,135	-	1,242,778	395,688	8,017,601
- Held-to-maturity	12,578,210	-	117,746	14,666	12,710,622
Investment in associates and joint ventures	22,265	-	-	181,325	203,590
Goodwill	1,023,528	-	-	-	1,023,528
Other intangible assets	301,831	-	-	2,932	304,763
Property and equipment	1,047,865	-	522	19,750	1,068,137
Deferred income tax assets	549,252	-	927	1,556	551,735
Other assets	2,064,646	4,624	30,601	44,099	2,143,970
As of December 31, 2011	**109,152,299**	**37,485**	**3,692,218**	**3,174,716**	**116,056,718**
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**
Letter of guarantees	17,215,482	366,424	775,005	457,802	18,814,713
Letter of credits	3,930,850	15,407	379,374	681,353	5,006,984
Acceptance credits	158,045	-	870	-	158,915
Other commitments and contingencies	2,381,228	-	2,059	8,610	2,391,897
As of December 31, 2011	**23,685,605**	**381,831**	**1,157,308**	**1,147,765**	**26,372,509**
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**

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

4. Financial risk management (continued)

Rating of debt securities:

	December 31, 2011		December 31, 2010		December 31, 2009	
Moody's credit rating model	Trading securities	Investment securities	Trading securities	Investment securities	Trading securities	Investment securities
Financial assets:						
Aaa	-	93,259	-	70,309	-	90,523
Aa	-	-	-	-	190	28,618
Aa1	-	45,065	-	-	-	-
Aa2	246	32,911	200	27,266	-	-
Aa3	-	432,025	-	457,300	-	-
A1	-	144,134	-	-	-	-
A2	-	586,345	-	304,986	-	-
A3	-	-	-	163,210	-	-
Baa	-	-	-	-	-	100,901
Baa1	2,400	32,064	-	91,310	-	-
Baa2	-	229,932	-	189,873	-	-
Baa3	-	78,037	-	33,730	-	-
Ba1	-	20,648	-	32,092	-	-
Ba2	278,934	18,795,205	311,991	17,194,168	227,149	13,929,689
Ba3	-	15,144	-	41,854	46,729	1,117,035
Ca	-	14,649	-	-	-	-
Unrated	632	185,054	57,952	228,226	52,892	54,596
Total	282,212	20,704,472	370,143	18,834,324	326,960	15,321,362

B. Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. As a commercial group, the focus is serving the financial needs of the customers, thereby generating exposure to interest rate, and foreign exchange risk.

The Market Risk Policy of the Group identifies risk-management guidelines. According to the Market Risk Policy, market risk is managed depending on the treatment of the banking book and trading book. The banking book consists of all assets and liabilities arising from commercial activities, sensitive to interest rate and foreign exchange movements. The trading book, on the other hand, includes the positions held for trading, client servicing purposes or for keeping the market maker status.

The trading activity of the Group is realized mainly in FX and securities, which is tolerated within predefined limits. Risk limits are set on an intra-day and end-of-day position basis, as well as on Value at Risk, monitored on a daily basis.

The banking book interest rate risk is measured through the economic value sensitivity method, which implies the potential change in fair value of the interest rate positions resulting from a parallel upward/downward shift of the yield curve. The overall sensitivity is supposed to be within 20% of the Core Tier 1 Capital, as also outlined in Basel II. Interest rate swaps are utilized to mitigate the banking book interest rate risk resulting from the maturity mismatch. Besides Economic Value Sensitivity, an overall Value at Risk, covering all statement of financial position items and Basis Point Value ("BPV") methods are used to measure the structural interest rate risk.

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

4. Financial risk management (continued)

As part of the management of market risk, the Group undertakes various hedging strategies with hedge accounting applied (Note 8). The Group also uses derivative financial instruments such as forwards, swaps, futures and options in the foreign exchange and capital markets. These transactions are considered as effective economic hedges under the Group's risk management policies. However, since they do not qualify for hedge accounting under the specific provisions of IAS 39, they are treated as derivatives held for trading.

The major measurement techniques used to measure and control market risk are outlined below.

(a) Value-at-risk

The Group applies a VaR methodology to its trading portfolios, to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The VaR limits are set by the Board of Directors and revised every year according to the budget and strategic plan of the Group. VaR limit compliance is monitored by Risk Management on a daily basis.

VaR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the "maximum" amount the Group might lose, but only to a certain level of confidence (99%). There is therefore a specified statistical probability (1%) that actual loss could be greater than the VaR estimate. The VaR model of the Group assumes a one-day "holding period" until positions can be closed. The Group's assessment of past movements is based on data for the past 500 days. The Group applies these historical changes in rates, prices, indices, etc. directly to its current positions - a method known as historical simulation. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/factors used in the VaR calculation (back testing). The use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

As VaR constitutes an integral part of the Group's market-risk control regime, VaR limits are established by the Board of Directors annually for all trading portfolio operations. For investment positions, as for the held-to-maturity portfolio, risk appetite limits are applied (VaR/Nominal Positions). Actual exposure against limits, together with a consolidated group-wide VaR, is reviewed daily by Risk Management. Average daily VaR for the trading portfolio of the Group for the twelve months period is TL 1,036 in 2011.

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 (2011)**		
	Average	**High**	**Low**
Foreign exchange risk	477	945	31
Interest rate risk of securities	38,749	54,312	29,084
Equities risk	-	-	-
Total VaR (*)	**82,190**	**98,262**	**74,468**

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

4. Financial risk management (continued)

	12 months to reporting date (2010)		
	Average	High	Low
Foreign exchange risk	634	1,123	408
Interest rate risk of securities	85,474	136,642	51,963
Equities risk	-	-	-
Total VaR (*)	**78,028**	**107,545**	**55,048**

	12 months to reporting date (2009)		
	Average	High	Low
Foreign exchange risk	622	2,260	162
Interest rate risk of securities	153,970	247,332	86,478
Equities risk	-	-	-
Total VaR (*)	**155,048**	**246,084**	**94,778**

(*) As at 31 December, 2011, 2010 and 2009 total Group VaR also includes derivatives.

(b) Trading portfolio VaR by risk type	12 months to reporting date (2011)		
	Average	High	Low
Foreign exchange risk	477	945	31
Interest rate risk of trading securities	559	998	199
Equities risk	-	-	-
Total VaR	**1,036**	**1,943**	**230**

	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**

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

4. Financial risk management (continued)

(c) Non-trading portfolio VaR by risk type	12 months to reporting date (2011)		
	Average	High	Low
Foreign exchange risk	-	-	-
Interest rate risk of investment securities	38,190	53,514	28,884
Equities risk	-	-	-
Total VaR	**38,190**	**53,514**	**28,884**

	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**

(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-balance sheet foreign exchange derivative instruments. The Group takes an exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The limits are set by Board of Directors on the level of exposure in aggregate for both overnight and intra-day positions, which are monitored on a daily basis.

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

4. Financial risk management (continued)

The table below summarizes the Group's assets and liabilities at carrying amounts, categorized by currency. The off-balance sheet gap represents the difference between the notional amounts of purchase and sale foreign currency derivative financial instruments.

December 31, 2011

	Foreign currency					
	USD	EUR	Other	Total	TL	Total
Assets						
Cash and balances with central banks	874,752	3,900,059	654,606	5,429,417	4,652,286	10,081,703
Loans and advances to banks	1,669,438	977,669	63,336	2,710,443	2,405,149	5,115,592
Financial assets held for trading						
- Trading securities	27,964	2,141	-	30,105	252,107	282,212
- Derivative financial instruments	76,828	5,702	2,011	84,541	183,618	268,159
Loans and advances to customers (1)	19,888,359	11,039,498	973,530	31,901,387	42,006,384	73,907,771
Hedging derivatives	362	-	-	362	376,973	377,335
Investment securities						
- Available-for-sale	1,270,495	165,851	54,537	1,490,883	6,526,718	8,017,601
- Held-to-maturity	8,613,182	628,558	-	9,241,740	3,468,882	12,710,622
Investment in associates and joint ventures	-	-	183,940	183,940	19,650	203,590
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	2,932	2,932	301,831	304,763
Property and equipment	-	522	19,750	20,272	1,047,865	1,068,137
Deferred income tax assets	-	927	1,556	2,483	549,252	551,735
Other assets	574,666	208,167	617,968	1,400,801	743,169	2,143,970
Total assets	**32,996,046**	**16,929,094**	**2,574,166**	**52,499,306**	**63,557,412**	**116,056,718**
Liabilities						
Deposits from banks	5,060,404	1,039,163	60,008	6,159,575	1,297,809	7,457,384
Customer deposits	19,109,954	8,916,338	1,946,776	29,973,068	34,680,811	64,653,879
Funds borrowed	5,490,051	10,243,933	124,786	15,858,770	2,309,128	18,167,898
Debt securities in issue	1,165,796	987,567	-	2,153,363	1,095,354	3,248,717
Derivative financial instruments	105,429	22,820	2,174	130,423	409,916	540,339
Current income taxes payable	-	-	513	513	112,063	112,576
Deferred income tax liabilities	-	-	-	-	-	-
Hedging derivatives	374,413	65,776	-	440,189	62,652	502,841
Other provisions	-	277	355	632	465,205	465,837
Retirement benefit obligations	-	4,187	-	4,187	885,082	889,269
Insurance technical reserves	267,199	65,515	13	332,727	731,167	1,063,894
Other liabilities	520,326	647,430	19,791	1,187,547	4,833,494	6,021,041
Total liabilities	**32,093,572**	**21,993,006**	**2,154,416**	**56,240,994**	**46,882,681**	**103,123,675**
Net balance sheet position	**902,474**	**(5,063,912)**	**419,750**	**(3,741,688)**	**16,674,731**	**12,933,043**
Off-balance sheet derivative instruments net notional position	(2,580,679)	6,151,489	(45,548)	3,525,262	(4,215,177)	(689,915)
Net foreign currency position	**(1,678,205)**	**1,087,577**	**374,202**	**(216,426)**	**12,459,554**	**12,243,128**

(1) Collective impairment allowance of TL 382,122 calculated on foreign currency denominated loans is presented as TL balance in the above currency position table.

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

4. Financial risk management (continued)

December 31, 2010

	Foreign currency					
	USD	EUR	Other	Total	TL	Total
Assets						
Cash and balances with central banks	580,667	2,799,528	95,920	3,476,115	2,558,311	6,034,426
Loans and advances to banks	1,218,798	397,656	73,069	1,689,523	1,682,584	3,372,107
Financial assets held for trading						
- Trading securities	10,229	50,969	-	61,198	315,393	376,591
- Derivative financial instruments	49,625	14,871	6,250	70,746	622,778	693,524
Loans and advances to customers (1)	15,060,611	8,443,658	682,800	24,187,069	33,617,085	57,804,154
Hedging derivatives	3,738	-	-	3,738	34,463	38,201
Investment securities						
- Available-for-sale	1,323,106	76,327	53,680	1,453,113	4,428,643	5,881,756
- Held-to-maturity	6,880,673	774,441	-	7,655,114	5,319,830	12,974,944
Investment in associates and joint ventures	-	-	71,906	71,906	22,265	94,171
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	1,214	1,214	262,453	263,667
Property and equipment	-	607	16,379	16,986	1,146,094	1,163,080
Deferred income tax assets	-	-	1,589	1,589	474,600	476,189
Other assets	348,546	333,668	255,369	937,583	676,312	1,613,895
Total assets	**25,475,993**	**12,891,725**	**1,258,176**	**39,625,894**	**52,184,339**	**91,810,233**
Liabilities						
Deposits from banks	2,736,367	1,409,572	251,314	4,397,253	538,217	4,935,470
Customer deposits	13,874,813	7,076,309	749,046	21,700,168	31,790,782	53,490,950
Funds borrowed	3,355,373	6,778,604	57,961	10,191,938	2,423,004	12,614,942
Debt securities in issue	844,040	550,864	-	1,394,904	-	1,394,904
Derivative financial instruments	50,258	8,482	6,206	64,946	294,222	359,168
Current income taxes payable	-	180	-	180	122,346	122,526
Deferred income tax liabilities	-	2,132	-	2,132	-	2,132
Hedging derivatives	101,638	-	-	101,638	352,025	453,663
Other provisions	-	412	-	412	456,773	457,185
Retirement benefit obligations	-	2,737	-	2,737	936,999	939,736
Insurance technical reserves	257,022	59,204	12	316,238	614,469	930,707
Other liabilities	486,280	457,858	12,904	957,042	4,208,044	5,165,086
Total liabilities	**21,705,791**	**16,346,354**	**1,077,443**	**39,129,588**	**41,736,881**	**80,866,469**
Net balance sheet position	**3,770,202**	**(3,454,629)**	**180,733**	**496,306**	**10,447,458**	**10,943,764**
Off-balance sheet derivative instruments net notional position	(4,717,269)	4,389,539	(22,028)	(349,758)	4,459,888	4,110,130
Net foreign currency position	**(947,067)**	**934,910**	**158,705**	**146,548**	**14,907,346**	**15,053,894**

(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.

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

4. Financial risk management (continued)

December 31, 2009

				Foreign currency		
	USD	EUR	Other	Total	TL	Total
Assets						
Cash and balances with central banks	88,474	2,306,349	50,239	2,445,062	1,784,273	4,229,335
Loans and advances to banks	764,160	827,321	78,069	1,669,550	2,126,534	3,796,084
Financial assets held for trading						
- Trading securities	44,227	65,365	-	109,592	256,331	365,923
- Derivative financial instruments	-	-	-	-	617,704	617,704
Loans and advances to customers (1)	11,111,317	6,369,968	586,277	18,067,562	24,070,035	42,137,597
Hedging derivatives	-	-	-	-	128,631	128,631
Investment securities						
- Available-for-sale	937,685	70,587	81,434	1,089,706	939,867	2,029,573
- Held-to-maturity	5,986,127	1,275,991	504	7,262,622	6,056,097	13,318,719
Investment in associates and joint ventures	-	-	58,939	58,939	24,683	83,622
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	111	111	216,330	216,441
Property and equipment	-	615	16,315	16,930	1,139,253	1,156,183
Deferred income tax assets	-	541	1,333	1,874	480,929	482,803
Other assets	143,529	170,380	192,775	506,684	643,203	1,149,887
Total assets	**19,075,519**	**11,087,117**	**1,065,996**	**31,228,632**	**39,507,398**	**70,736,030**
Liabilities						
Deposits from banks	1,199,071	616,659	196,714	2,012,444	419,735	2,432,179
Customer deposits	11,504,089	6,994,241	740,414	19,238,744	22,942,642	42,181,386
Funds borrowed	1,512,248	5,658,712	43,017	7,213,977	1,417,159	8,631,136
Debt securities in issue	1,016,282	728,196	-	1,744,478	-	1,744,478
Derivative financial instruments	-	-	-	-	268,515	268,515
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	(6,283,232)	3,383,154	112,283	(2,787,795)	4,072,515	1,284,720
Net foreign currency position	**(3,053,482)**	**164,981**	**178,606**	**(2,709,895)**	**12,701,018**	**9,991,123**

(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.

At December 31, 2011, assets and liabilities denominated in foreign currency were translated into TL using a foreign exchange rate of TL 1.8417 = USD 1, and TL 2.3827 = EUR1 (2010 - TL 1.50730 = USD 1, and TL 1.99780 = EUR1; 2009 - TL 1.4680 = USD1, and TL 2.1062 = 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.

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

4. Financial risk management (continued)

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, 2011	December 31,2010	December 31, 2009
Change in currency exchange rate	Profit/loss effect [1]	Profit/loss effect [1]	Profit/loss effect [1]
(+) 15%	(39,850)	(15,330)	(52,405)
(-) 15%	39,850	15,330	52,405

(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 value sensitivity limit and Basis Point Value ("BPV") limit. Economic value sensitivity analysis is performed according to a scenario of 2% shift in FX yield curve and 4% shift in TL yield curve. The resulting profit/loss should not exceed 20% (Sensitivity Limit) of the Bank's Tier 1 + Tier 2 Capital. The BPV limit restricts maximum interest rate risk position by currency and time buckets. BPV is applied for the banking book and represents the sensitivity of the banking book to 1 bps change in interest rates.

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

4. Financial risk management (continued)

The table below summarizes the Group's exposure to interest rate risk at December 31, 2011, 2010 and 2009. Included in the table are the Group's assets and liabilities in carrying amounts classified in terms of periods remaining to contractual repricing dates.

December 31, 2011	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with central banks	-	-	-	-	10,081,703	10,081,703
Loans and advances to banks	4,163,582	163,918	262,208	2,371	523,513	5,115,592
Financial assets held for trading						
- Trading securities	26,730	168,914	27,786	17,804	40,978	282,212
- Derivative financial instruments	109,589	90,745	67,825	-	-	268,159
Loans and advances to customers	17,877,276	16,674,480	22,638,328	14,198,943	2,518,744	73,907,771
Hedging derivatives	168,161	209,174	-	-	-	377,335
Investment securities						
- Available-for-sale	1,123,579	2,389,281	1,768,348	2,712,642	23,751	8,017,601
- Held-to-maturity	2,095,011	1,212,450	2,721,385	6,681,776	-	12,710,622
Investment in associates and joint ventures	-	-	-	-	203,590	203,590
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	-	-	304,763	304,763
Property and equipment	-	-	-	-	1,068,137	1,068,137
Deferred income tax assets	-	-	-	-	551,735	551,735
Other assets	28,833	-	-	-	2,115,137	2,143,970
Total assets	**25,592,761**	**20,908,962**	**27,485,880**	**23,613,536**	**18,455,579**	**116,056,718**
Liabilities						
Deposits from banks	5,777,713	1,362,367	43,102	95,463	178,739	7,457,384
Customer deposits	50,602,821	2,626,054	556,390	20,031	10,848,583	64,653,879
Funds borrowed	8,886,232	7,235,190	1,462,084	584,392	-	18,167,898
Debt securities in issue	2,291,895	956,822	-	-	-	3,248,717
Derivative financial instruments	381,219	77,373	74,086	7,661	-	540,339
Current income taxes payable	-	-	-	-	112,576	112,576
Deferred income tax liabilities	-	-	-	-	-	-
Hedging derivatives	409,394	93,447	-	-	-	502,841
Other provisions	-	-	-	-	465,837	465,837
Retirement benefit obligations	-	-	-	-	889,269	889,269
Insurance technical reserves	46,029	82,601	324,395	127,837	483,032	1,063,894
Other liabilities	10,549	16,695	1,350	-	5,992,447	6,021,041
Total liabilities	**68,405,852**	**12,450,549**	**2,461,407**	**835,384**	**18,970,483**	**103,123,675**
Net interest repricing gap	**(42,813,091)**	**8,458,413**	**25,024,473**	**22,778,152**	**(514,904)**	**12,933,043**
Off-balance sheet derivative instruments net notional position	17,048,944	1,162,079	(17,481,361)	(658,792)	-	70,870

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

4. Financial risk management (continued)

December 31, 2010	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with central banks	-	-	-	-	6,034,426	6,034,426
Loans and advances to banks	2,282,807	385,433	402,066	2,710	299,091	3,372,107
Financial assets held for trading						
- Trading securities	68,801	55,803	62,147	125,441	64,399	376,591
- Derivative financial instruments	591,743	76,975	23,581	1,225	-	693,524
Loans and advances to customers	18,082,302	14,479,584	16,445,317	7,766,566	1,030,385	57,804,154
Hedging derivatives	9,298	28,903	-	-	-	38,201
Investment securities						
- Available-for-sale	837,277	793,347	2,234,835	1,989,900	26,397	5,881,756
- Held-to-maturity	4,194,347	822,733	2,169,162	5,788,702	-	12,974,944
Investment in associates and joint ventures	-	-	-	-	94,171	94,171
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	-	-	263,667	263,667
Property and equipment	-	-	-	-	1,163,080	1,163,080
Deferred income tax assets	-	-	-	-	476,189	476,189
Other assets	516,252	6,005	-	-	1,091,638	1,613,895
Total assets	**26,582,827**	**16,648,783**	**21,337,108**	**15,674,544**	**11,566,971**	**91,810,233**
Liabilities						
Deposits from banks	3,712,332	688,154	238,299	103,662	193,023	4,935,470
Customer deposits	42,833,680	933,971	366,958	30,530	9,325,811	53,490,950
Funds borrowed	7,741,590	4,028,093	312,164	533,095	-	12,614,942
Debt securities in issue	1,375,419	-	-	19,033	452	1,394,904
Derivative financial instruments	138,469	207,065	13,634	-	-	359,168
Current income taxes payable	-	-	-	-	122,526	122,526
Deferred income tax liabilities	-	-	-	-	2,132	2,132
Hedging derivatives	173,886	279,777	-	-	-	453,663
Other provisions	-	-	-	-	457,185	457,185
Retirement benefit obligations	-	-	-	-	939,736	939,736
Insurance technical reserves	30,695	76,694	297,790	123,616	401,912	930,707
Other liabilities	2,605,539	3,734	1,135	-	2,554,678	5,165,086
Total liabilities	**58,611,610**	**6,217,488**	**1,229,980**	**809,936**	**13,997,455**	**80,866,469**
Net interest repricing gap	**(32,028,783)**	**10,431,295**	**20,107,128**	**14,864,608**	**(2,430,484)**	**10,943,764**
Off-balance sheet derivative instruments net notional position	7,624,835	423,157	(7,757,173)	(500,565)	-	(209,746)

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

4. Financial risk management (continued)

December 31, 2009	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with central banks	1,302,954	-	-	-	2,926,381	4,229,335
Loans and advances to banks	3,212,700	95,689	146,168	13,899	327,628	3,796,084
Financial assets held for trading						
- Trading securities	143,878	50,069	63,024	17,097	91,855	365,923
- Derivative financial instruments	477,729	33,246	105,412	1,317	-	617,704
Loans and advances to customers	13,143,049	10,450,643	11,378,469	6,618,735	546,701	42,137,597
Hedging derivatives	128,519	28	84	-	-	128,631
Investment securities						
- Available-for-sale	657,076	267,807	187,114	886,971	30,605	2,029,573
- Held-to-maturity	4,690,434	1,449,880	2,733,148	4,445,257	-	13,318,719
Investment in associates and joint ventures	-	-	-	-	83,622	83,622
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	-	-	216,441	216,441
Property and equipment	-	-	-	-	1,156,183	1,156,183
Deferred income tax assets	-	-	-	-	482,803	482,803
Other assets	278,063	7,572	-	-	864,252	1,149,887
Total assets	**24,034,402**	**12,354,934**	**14,613,419**	**11,983,276**	**7,749,999**	**70,736,030**
Liabilities						
Deposits from banks	1,673,841	481,449	-	-	276,889	2,432,179
Customer deposits	32,119,692	1,619,626	556,231	134,036	7,751,801	42,181,386
Funds borrowed	5,239,191	3,263,947	127,998	-	-	8,631,136
Debt securities in issue	1,743,760	-	-	-	718	1,744,478
Derivative financial instruments	122,982	47,014	74,773	23,746	-	268,515
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**
Off-balance sheet derivative instruments net notional position	402,137	8,328	128,475	(14,283)	-	524,657

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

4. Financial risk management (continued)

Interest rate sensitivity analysis [1]:

The table below represents the effect of 1% parallel change in the yield curve on assets and liabilities sensitive to interest rate excluding the tax effects.

	December 31, 2011	December 31, 2010	December 31, 2009
Change in Interest rate	**Value effect**	**Value effect**	**Value effect**
(+) %1	(569,485)	(751,170)	(468,288)
(-) %1	685,592	842,281	515,509

(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, 2011, 2010 and 2009 based on yearly contractual rates.

	December 31, 2011			December 31, 2010			December 31, 2009		
	USD (%)	EUR (%)	TL (%)	USD (%)	EUR (%)	TL (%)	USD (%)	EUR (%)	TL (%)
Assets									
Cash and balances with central banks	-	-	-	-	-	-	-	-	3.78
Loans and advances to banks	4.17	0.66	12.58	2.09	0.36	8.05	1.80	1.06	7.33
Financial assets held for trading	4.18	5.75	8.32	2.86	7.05	8.11	5.81	7.34	8.59
Investment securities									
- Available-for-sale	6.80	5.83	9.84	6.98	5.94	7.85	7.43	7.18	11.73
- Held-to-maturity	6.70	5.00	9.91	6.76	5.69	10.05	6.80	5.54	11.49
Loans and advances to customers	5.04	5.87	13.80	4.63	5.13	12.78	5.29	6.14	17.81
Liabilities									
Deposits from banks	1.98	3.11	8.57	1.36	1.14	7.29	1.68	1.16	2.98
Customer deposits	4.70	3.97	10.89	2.80	2.57	8.70	1.94	1.90	7.87
Debt securities in issue	1.66	2.66	10.40	1.33	1.77	-	1.29	1.76	-
Funds borrowed	2.44	3.09	11.45	2.50	2.48	9.15	2.30	2.77	13.29

4. Financial risk management (continued)

C. Liquidity risk

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The liquidity risk is managed within the Asset and Liability Management strategy in accordance with the market risk policies. In this scope, the funding sources are being diversified and sufficient cash and cash equivalents are held to fulfill the obligations associated with financial liabilities. During the monthly meetings of the Executive Committee, the liquidity position of the Group is evaluated and it is ensured that the required actions are taken when considered necessary.

Liquidity risk is closely monitored within the Group and particular attention is paid to keeping enough cash and cash-equivalent instruments to fund increases in assets or unexpected decreases in liabilities, and to meet legal requirements, thereby optimizing the cost of carrying any excess liquidity. The Liquidity Policy provides guidelines to quantify the liquidity position and achieve a sound balance between profitability and liquidity needs. Liquidity risk limits are set both for short-term and structural (long-term) liquidity positions.

Within the Group, the following definitions apply to the components of Liquidity Risk:

1. ***Liquidity Mismatch Risk*** refers to the risk of non-conformity between the amounts and/or the maturities of cash inflows and cash outflows;

2. ***Liquidity Contingency Risk*** refers to the risk that future unexpected events could require a greater amount of liquidity than the amount foreseen as necessary for the Group. This risk could arise as a result of events such as the failure by clients to reimburse loans, the need to finance new assets, difficulties in selling liquid assets or obtaining new financings in the event of a liquidity crisis; and

3. ***Market Liquidity Risk*** refers to the risk that the Group may incur losses as a result of the sale of assets deemed to be liquid, or in extreme conditions is not able to liquidate such positions due to not sufficient liquidity offered by the market or keeps the position that is too large when compared to market turnover. Market liquidity risk is primarily handled via the VaR system in the Credit Risk Officer ("CRO") division and is not a focus of the Liquidity Policy.

Reports on short term liquidity positions and structural liquidity positions are prepared by Risk Management. Short-term liquidity risk management considers the events that will impact upon the Group's liquidity position from one day up to three months. Structural liquidity positions consider the events effecting the Group's liquidity position in the long term. The primary objective is to maintain an adequate ratio between total liabilities and medium or long term assets, with a view to avoiding pressures on short-term sources (both current and future), while in the meantime optimizing the cost of funding.

In cases when the future financial events require more liquidity than the Bank's daily liquidity needs, "Emergency Situation Liquidity Plan" is activated where duties and responsibilities are defined in detail. Liquidity Stress Test scenarios are used to measure the Bank's resistance to unexpected situations.

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.

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

4. Financial risk management (continued)

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.

December 31, 2011[1]

	Demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Liabilities						
Deposits from banks	208,078	5,559,094	1,304,681	683,769	111,015	7,866,637
Customer deposits	10,848,584	50,585,674	3,438,147	677,125	34,015	65,583,545
Funds borrowed	-	2,513,006	9,233,456	5,769,748	1,318,279	18,834,489
Debt securities in issue	-	116,912	1,457,768	1,692,192	133,264	3,400,136
Total liabilities	**11,056,662**	**58,774,686**	**15,434,052**	**8,822,834**	**1,596,573**	**95,684,807**
Assets held for managing liquidity risk (contractual maturity dates)	**8,309,822**	**28,085,554**	**31,293,352**	**38,177,884**	**25,190,749**	**131,057,361**

(1) Maturities of non-cash loans are described in Note 36.

December 31, 2010[1]

	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
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**

(1) Maturities of non-cash loans are described in Note 36.

December 31, 2009[1]

	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
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**

(1) Maturities of non-cash loans are described in Note 36.

(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, 2011	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	9,262,199	4,251,613	4,713,761	3,603,302	531,650	22,362,525
- Inflow	9,136,901	4,156,536	4,805,995	3,000,351	368,340	21,468,123
Interest rate derivatives:						
- Outflow	97,033	3,149	295,380	3,811,951	661,856	4,869,369
- Inflow	97,487	5,159	294,006	3,814,968	662,743	4,874,363
Derivatives held for hedging:						
Interest rate derivatives:						
- Outflow	51,407	270,322	1,652,793	18,800,665	464,666	21,239,853
- Inflow	17,528	263,013	1,481,977	18,229,258	495,315	20,487,091
Total cash outflow	9,410,639	4,525,084	6,661,934	26,215,918	1,658,172	48,471,747
Total cash inflow	9,251,916	4,424,708	6,581,978	25,044,577	1,526,398	46,829,577

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 cash outflow	7,215,417	8,413,594	6,291,474	13,261,249	1,028,565	36,210,299
Total cash 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 cash outflow	7,651,098	3,261,400	1,322,515	6,160,879	1,520,815	19,916,707
Total cash inflow	7,673,991	3,614,725	1,092,513	5,718,817	1,462,993	19,563,039

4. Financial risk management (continued)

D. Operational risk

Operational risk is defined as the risk of losses due to errors, infringements, interruptions, damages caused by internal processes or personnel or systems or caused by external events. Legal and compliance risk is a sub-category of operational risk: it is the risk to earnings from violations or non compliance with laws, rules, regulations, agreements, prescribed practices or ethical standards. Operational Risk Management department ("ORM") monitors the Group's operational risk exposure in accordance to standards and policies, collects operational risk data in a web-based database, performs the risk indicators' identification, the scenario analysis assessment, Business Continuity Management and assures the quality of data gathered in accordance to Basel II standards, proposes insurance hedging on operational risks and prepares risk mitigation plans. ORM performs second level controls, manages and measures the Group's operational risks.

For regulatory purposes and consideration in statutory capital adequacy ratio, on a consolidated base, the Group calculates the amount subject to operational risk with the basic indicator method in accordance with Section 4 of the " Regulation Regarding Measurement and Evaluation of Banks' Capital Adequacy Ratio" published in the Official Gazette No. 26333 dated November 1, 2006, namely "The Calculation of the Amount Subject to Operational Risk", based on the gross income of the Group for the years ended 2010, 2009 and 2008. As of December 31, 2011, the total amount subject to operational risk is calculated as TL 9,764,669 (2010 - TL 8,999,966; 2009 - TL 7,695,259) and the amount of the related capital requirement is TL 781,174 (2010 - TL 719,998; 2009 - TL 615,621).

E. Capital management

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

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

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

4. Financial risk management (continued)

The Group's regulatory capital adequacy position on a consolidated basis at December 31, 2011, 2010 and 2009 was as follows:

	December 31, 2011	December 31, 2010	December 31, 2009
Tier I capital	11,698,856	9,276,491	7,076,126
Tier II capital[1]	4,027,644	3,037,830	3,010,838
Deductions	(333,464)	(86,551)	(103,614)
Total regulatory capital	15,393,036	12,227,770	9,983,350
Risk-weighted assets (including market and operational risk)	103,462,230	79,249,650	60,445,665
Capital adequacy ratio (%)	**14.88**	**15.43**	**16.52**

(1) According to the resolution of the Board of Directors dated February 22, 2012, the Parent Bank has signed a subordinated loan agreement with UniCredit Bank Austria AG, amounting to USD 585 million, with 10 years maturity and a repayment option by the borrower at the end of five years, at an interest rate of 3 months LIBOR + 8,30%. The amount of TL 1.046.776, calculated after the deduction of the required items as described in "Banking Law" and "Regulation on Own Funds of Banks" from the available amount in the Bank's accounts for this agreement since December 28, 2011, has been utilised as secondary subordinated loan under supplementary capital in the calculation of the current period's consolidated capital adequacy ratio by the authorization of BRSA dated February 20, 2012 and numbered B.02.1.BDK.0.11.00.00.50.1-3685.

(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, 2011		December 31, 2010		December 31, 2009	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial assets:						
Loans and advances to banks	5,115,592	5,277,657	3,372,107	3,391,936	3,796,084	3,799,876
Investment securities (held-to-maturity)	12,710,622	12,975,342	12,974,944	13,741,481	13,318,719	13,982,200
Loans and advances to customers	73,907,771	75,921,569	57,804,154	59,254,992	42,137,597	42,225,440
Financial liabilities:						
Deposits from banks	7,457,384	7,460,069	4,935,470	4,714,321	2,432,179	2,434,939
Customer deposits	64,653,879	64,976,209	53,490,950	53,490,950	42,181,386	42,181,386
Funds borrowed	18,167,898	18,121,703	12,614,942	12,643,111	8,631,136	8,702,533
Debt securities in issue	3,248,717	3,248,717	1,394,904	1,394,904	1,744,478	1,744,478

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.

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:

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

4. Financial risk management (continued)

Assets and liabilities measured at fair value

December 31, 2011	Level 1	Level 2	Level 3[(1)]	Total
Financial assets at fair value through profit and loss				
Financial assets held for trading				
- Debt securities	268,127	14,085	-	282,212
- Equity securities	-	-	-	-
- Derivatives	-	268,159	-	268,159
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	-	377,335	-	377,335
Available-for-sale financial assets				
- Investments securities - debt	6,352,710	1,641,140	-	7,993,850
- Investments securities - equity	-	-	23,751	23,751
Total assets	**6,620,837**	**2,300,719**	**23,751**	**8,945,307**
Financial liabilities at fair value through profit or loss				
- Derivatives	-	540,339	-	540,339
Hedging derivatives	-	502,841	-	502,841
Total liabilities	**-**	**1,043,180**	**-**	**1,043,180**

(1) Non-listed share certificates disclosed in Level 3, are accounted in accordance with IAS 39, at acquisition costs.

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
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.

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

4. Financial risk management (continued)

December 31, 2009	Level 1	Level 2	Level 3[1]	Total
Financial assets at fair value through profit and loss				
Financial assets held for trading				
- Debt securities	326,770	190	-	326,960
- Equity securities	38,963	-	-	38,963
- Derivatives	-	617,704	-	617,704
Financial assets designated at fair value through profit or loss				
- Debt securities	-	-	-	-
- Equity securities	-	-	-	-
- Loans and advances to banks	-	-	-	-
- Loans and advances to customers	-	-	-	-
Hedging derivatives	-	128,631	-	128,631
Available-for-sale financial assets				
- Investments securities - debt	1,963,444	39,199	-	2,002,643
- Investments securities - equity	2,060	-	24,870	26,930
Total assets	**2,331,237**	**785,724**	**24,870**	**3,141,831**
Financial liabilities at fair value through profit or loss				
- Derivatives	-	268,515	-	268,515
Hedging derivatives	-	357,613	-	357,613
Total liabilities	**-**	**626,128**	**-**	**626,128**

(1) Non-listed share certificates disclosed in Level 3, are accounted in accordance with IAS 39, at acquisition costs.

Reconciliation of Level 3 Items

Available-for-sale financial assets Investment securities - equity	December 31, 2011	December 31, 2010	December 31, 2009
Balance at the beginning of the period	22,136	24,870	20,371
Total profit or losses	-	-	-
- Profit or loss	-	-	(7)
- Other comprehensive income	-	-	-
Purchases	1,587	-	4,506
Issues	-	-	-
Settlements	-	-	-
Transfers to loans and receivables	-	-	-
Transfers into or out of Level 3	28	(2,734)	-
Balance at the end of the period	**23,751**	**22,136**	**24,870**
Total profit or losses for the period included in profit or loss for assets/liabilities held at period end	-	-	-

In the current year, there is no transfer between Level 1 and Level 2.

(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, 2011	December 31, 2010	December 31 2009
Investment securities held in custody	19,935,479	18,069,560	19,229,647
Cheques received for collection	8,761,515	6,677,547	5,033,055
Commercial notes received for collection	2,927,731	2,089,277	1,693,290
	31,624,725	**26,836,384**	**25,955,992**

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, 2011	December 31, 2010	December 31, 2009
Cash and cash equivalents	1,033,190	702,227	655,565
Balances with central banks	9,048,513	5,332,199	3,573,770
Reserve deposits with central banks (-)	(3,704,887)	(2,348,573)	(1,573,398)
Loans and advances to banks (with original maturity less than 90 days) (+)	4,967,585	2,467,771	3,518,847
Other cash equivalents (+)	603,388	249,772	188,796
Total	**11,947,789**	**6,403,396**	**6,363,580**

Turkish:

In accordance with the "Communiqué Regarding the Reserve Requirements" numbered 2005/1, the banks operating in Turkey place reserves in the CBRT for their TL and foreign currency liabilities according to the maturities stated below.

a) TL liabilities;
- Demand, notice deposits and private current accounts 11%,
- Up to 1 month time deposit accounts (1 month included) 11%,
- Up to 3 months time deposit accounts (3 months included) 11%,
- Up to 6 months time deposit accounts (6 months included) 8%,
- Up to 1 year time deposit accounts 6%,
- 1 year and over 1 year time deposit accounts and accumulating deposit accounts 5%,
- Up to 1 year liabilities excluding deposit (1 year included) 11%,
- Up to 3 year liabilities excluding deposit (3 year included) 8%,
- Over 3 year liabilities excluding deposit 5%,

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

5. Cash and cash equivalents for the purpose of presentation in the consolidated statement of cash flows (continued)

b) Foreign currency liabilities;
- Demand, notice FC deposits and private current accounts and up to 1 month, up to 3 months, up to 6 months, and up to 1 year time FC deposits 11%,
- 1 year time and more than 1 year time FC deposits 9%,
- Up to 1 year FC liabilities excluding deposit (1 year included) 11%,
- Up to 3 years FC liabilities excluding deposit (3 years included) 9%,
- Over 3 years FC liabilities excluding deposit 6%

Foreign:

Reserve requirements of De Nederlandsche Bank represents reserve deposits equivalent to 1% 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 2% (for AZN liabilities), 3% (for Foreign currency liabilities) of the statutory balances of customer accounts, due to banks and other funds borrowed.

6. Loans and advances to banks

	December 31, 2011			December 31, 2010			December 31, 2009		
	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total
TL:									
Nostro/ demand deposits	71,189	99	71,288	55,720	880	56,600	31,456	6,398	37,854
Time deposits	150,804	46,332	197,136	626,335	25,576	651,911	453,626	53,595	507,221
Interbank money market and reverse repo	2,136,725	-	2,136,725	974,073	-	974,073	1,581,459	-	1,581,459
	2,358,718	46,431	2,405,149	1,656,128	26,456	1,682,584	2,066,541	59,993	2,126,534
Foreign currency:									
Nostro/ demand deposits	6,991	445,234	452,225	16,218	226,273	242,491	14,367	275,407	289,774
Time deposits	1,348,022	873,362	2,221,384	642,031	805,001	1,447,032	488,785	890,991	1,379,776
Interbank money market and reverse repo	36,834	-	36,834	-	-	-	-	-	-
	1,391,847	1,318,596	2,710,443	658,249	1,031,274	1,689,523	503,152	1,166,398	1,669,550
	3,750,565	1,365,027	5,115,592	2,314,377	1,057,730	3,372,107	2,569,693	1,226,391	3,796,084

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

7. Financial assets held for trading

	December 31, 2011	December 31, 2010	December 31, 2009
Government bonds and treasury bills	227,090	256,818	207,224
Government bonds and treasury bills sold under repurchase agreements	-	43,734	66,654
Other debt securities	55,122	69,591	53,082
Total debt securities	**282,212**	**370,143**	**326,960**
Equity securities - listed	-	6,448	38,963
Total equity securities	**-**	**6,448**	**38,963**
Total securities	**282,212**	**376,591**	**365,923**
Derivative financial instruments	268,159	693,524	617,704
Total financial assets held for trading	**550,371**	**1,070,115**	**983,627**

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 utilizes the following derivative instruments with the general purpose of minimising market risk carried by balance sheet instruments and/or meeting customer demand:

"Currency forwards" represent commitments to purchase or sell foreign and domestic currency, including undelivered spot transactions. Forwards are customized contracts transacted in over-the-counter (OTC) market. The Group has credit exposure to the counterparties of forward contracts.

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.

Credit derivatives are capital market tools designed to transfer credit risk from one party to another.

As of December 31, 2011, the Bank's credit derivatives portfolio is composed of "credit linked notes" (embedded derivatives are separated from host contract in line with IAS 39 and recorded as credit default swaps) and "credit default swaps". Credit default swaps are contracts, in which the seller commits to pay the contract value to the buyer in case of certain credit risk events in return for the premium paid by the buyer for the contract. Credit default swaps are valued daily while credit linked notes are valued monthly.

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

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

8. Derivative financial instruments and hedging activities (continued)

December 31, 2011

	Contract/ notional amount (aggregate of buy and sell)	Fair values Assets	Fair values Liabilities
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	10,638,749	110,684	103,329
Currency swaps	19,181,819	8,779	96,243
Over the counter ("OTC") currency options	6,286,125	54,521	40,285
Total OTC foreign exchange derivatives	**36,106,693**	**173,984**	**239,857**
Interest rate derivatives:			
Interest rate swaps	4,579,348	67,526	79,588
Cross-currency interest rate swaps	45,607	14,122	193,069
OTC interest rate options	4,459,122	5,028	19,573
Total OTC interest rate derivatives	**9,084,077**	**86,676**	**292,230**
Other derivatives(1)	**1,646,449**	**7,499**	**8,252**
Total derivative assets/ (liabilities) held for trading	**46,837,219**	**268,159**	**540,339**
Derivatives used for hedging			
Derivatives designated as fair value hedges:			
Cross-currency interest rate swaps	6,206,854	369,747	18,959
Derivatives designated as cash flow hedges:			
Interest rate swaps	32,437,197	7,588	483,882
Total derivative assets/ (liabilities) used for hedging	**38,644,051**	**377,335**	**502,841**
Total recognized derivative assets/ (liabilities)	**85,481,270**	**645,494**	**1,043,180**
Current		330,308	430,968
Non-current		315,186	612,212
Total recognized derivative assets/ (liabilities)	**85,481,270**	**645,494**	**1,043,180**

(1) Other derivatives include credit default swaps and security options. As at December 31, 2011 credit default swaps include insignificant amount of potential exposure to Eurozone sovereign countries.

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

8. Derivative financial instruments and hedging activities (continued)

December 31, 2010

	Contract/ notional amount (aggregate of buy and sell)	Assets	Fair values Liabilities
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	5,287,933	24,255	33,661
Currency swaps	24,093,958	314,657	195,156
Over the counter ("OTC") currency options	10,928,414	77,679	75,371
Total OTC foreign exchange derivatives	**40,310,305**	**416,591**	**304,188**
Interest rate derivatives:			
Interest rate swaps	3,541,598	29,705	36,885
Cross-currency interest rate swaps	3,274,251	240,306	8,640
Total OTC interest rate derivatives	**6,815,849**	**270,011**	**45,525**
Other derivatives[1]	**918,313**	**6,922**	**9,455**
Total derivative assets/ (liabilities) held for trading	**48,044,467**	**693,524**	**359,168**
Derivatives used for hedging			
Derivatives designated as fair value hedges:			
Cross-currency interest rate swaps	4,317,238	34,462	313,917
Derivatives designated as cash flow hedges:			
Interest rate swaps	8,527,020	3,739	139,746
Total derivative assets/ (liabilities) used for hedging	**12,844,258**	**38,201**	**453,663**
Total recognized derivative assets/ (liabilities)	**60,888,725**	**731,725**	**812,831**
Current		664,284	188,316
Non-current		67,441	624,515
Total recognized derivative assets/ (liabilities)	**60,888,725**	**731,725**	**812,831**

(1) Other derivatives include credit default swaps and security options.

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

(1) Other derivatives include credit default swaps and security options.

Fair value hedges

Starting from March 1, 2009, the Group has hedged the possible fair value effects of changes in market interest rates on part of its fixed interest TL mortgage and car loan portfolios and fair value effects of changes in foreign exchange rates on part of its foreign currency denominated deposits using cross-currency interest rate swaps. The net carrying value of hedging instruments at December 31, 2011 is an asset amounting to TL 350,788 (2010 - liability TL 279,454; 2009 - liability TL 228,982). At December 31, 2011, the mark to market difference of the hedging instruments since the inception date of the hedge relationship is TL 111,818 (2010 - TL 240,233; 2009 - TL 147,649), the fair value difference of the hedged loans is TL 107,204 (2010 - TL 224,429; 2009 - TL 140,137) and their changes in the fair value for the year amounts to TL (117,225) (2010 - TL 84,292; 2009 - TL 140,137).

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

8. Derivative financial instruments and hedging activities (continued)

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, EUR and TL interest rate swaps with floating receive, fixed pay legs, and the hedged item is the cash outflows due to financing of interests of repricing USD, EUR and TL customer deposits, repos and borrowings.

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, 2011 was as follows:

	December 31, 2011	December 31, 2010	December 31, 2009
Net interest income / (expense)	(185,994)	(65,061)	-
Taxation	37,199	13,012	-

During 2011, a loss of TL 1,076 (2010 - TL 4,208; 2009 - None) was recognized in the statement of income due to hedge ineffectiveness from cash flow hedges.

As of December 31, 2011 net losses arising from cash flow hedges recognized under equity, net of reclassification to statement of income and net of tax, is TL 308,530 (2010 - 101,828; 2009 - None).

There were no transactions for which cash flow hedge accounting had to be ceased in 2011 or 2010 or 2009 as a result of the highly probable cash flows no longer being expected to occur.

Net investment hedges

The Group hedges part of the currency translation risk of net investments in foreign operations through foreign currency borrowings.

The Group's Euro denominated borrowing is designated as a hedge of the net investment in the Group's certain EUR denominated subsidiaries. The total amount of the borrowing designated as a hedge of the net investment at December 31, 2011 is EUR 238 million (2010 - EUR 203 million; 2009 - EUR 191 million). The foreign exchange loss of TL 123,317 (2010 - TL 52,151 loss; 2009 - TL 67,738 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 (2010 - None; 2009 - None).

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

9. Loans and advances to customers

December 31, 2011

	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Performing loans	44,747,256	13,079,163	10,147,831	2,549,066	1,787,155	72,310,471
Watch listed loans	720,622	525,182	246,351	131,498	-	1,623,653
Loans under legal follow - up	1,368,701	317,376	368,018	264,121	22,836	2,341,052
Gross	**46,836,579**	**13,921,721**	**10,762,200**	**2,944,685**	**1,809,991**	**76,275,176**
Specific allowance for impairment	(1,023,720)	(174,985)	(257,410)	(151,518)	(19,235)	(1,626,868)
Collective allowance for impairment	(477,264)	(105,661)	(138,050)	(12,792)	(6,770)	(740,537)
Total allowance for impairment	**(1,500,984)**	**(280,646)**	**(395,460)**	**(164,310)**	**(26,005)**	**(2,367,405)**
Net	**45,335,595**	**13,641,075**	**10,366,740**	**2,780,375**	**1,783,986**	**73,907,771**
Current						35,234,408
Non-current						38,673,363

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

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

9. Loans and advances to customers (continued)

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

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, 2011

	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Watch listed loans	333,927	232,157	-	59,312	-	625,396
Loans under legal follow - up	302,664	52,892	-	91,951	-	447,507
Total	**636,591**	**285,049**	**-**	**151,263**	**-**	**1,072,903**

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**

(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 2,767,669 (at amortized cost) which have been designated as hedged items in fair value hedges as of December 31, 2011 (2010 - TL 2,072,176; 2009 - TL 2,083,948). 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, 2011
	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
At January 1	**1,319,482**	**307,010**	**528,672**	**203,396**	**23,887**	**2,382,447**
Provision for loan impairment	294,075	370,974	179,321	71,240	2,879	918,489
Amounts recovered during the year	(120,103)	(341,583)	(154,848)	(37,331)	(765)	(654,630)
Loans written off during the year as uncollectible (-) (*)	(944)	(56,519)	(157,710)	(72,995)	-	(288,168)
Exchange differences	8,474	764	25	-	4	9,267
At December 31	**1,500,984**	**280,646**	**395,460**	**164,310**	**26,005**	**2,367,405**

						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**

(*) Includes the effect of provision releases due to sales from loans under legal follow - up.

9. Loans and advances to customers (continued)

According to the resolution of the Board of Directors of the Bank dated November 24, 2011, a portfolio composed of non-performing consumer loans and credit card loans amounting to TL 290,277 as of October 31, 2011, was sold to LBT Varlık Yönetim A.Ş. for a total consideration of TL 45,801 and with a gain of TL 5,013.

According to the resolution of the Board of Directors of Yapı Kredi Leasing dated November 28, 2011; as a result of the studies performed in accordance with the confidentiality agreements about the auction sale of selected portfolios composed of overdue receivables of the company, portfolio followed under non-performing loan accounts amounting to TL 34,481 as of October 31, 2011 was sold to Anadolu Varlık Yönetim A.Ş. for a total consideration of TL 1,500.

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.

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 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.

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.

(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, 2011	December 31, 2010	December 31, 2009
Gross investment in direct finance leases	3,395,456	2,457,777	2,644,114
Unearned finance income	(504,362)	(341,840)	(412,710)
	2,891,094	**2,115,937**	**2,231,404**
Interest accrual on receivables	27,229	29,760	39,187
Receivables from outstanding lease payments	26,362	36,598	59,877
Provision for impaired lease receivables	(164,310)	(203,396)	(161,414)
Net investment in direct finance leases	**2,780,375**	**1,978,899**	**2,169,054**

Lease payments receivable consists of rentals over the terms of leases. The rentals according to maturity are as follows:

	December 31, 2011	December 31, 2010	December 31, 2009
Less than 1 year	1,031,699	821,382	895,583
More than 1 year but not later than 5 years	1,776,296	1,145,621	1,180,003
Later than 5 years	245,433	49,550	54,694
Less: unearned finance income	(504,362)	(341,840)	(412,710)
Investment in performing lease receivables	**2,549,066**	**1,674,713**	**1,717,570**

10. Investment securities

(i) Securities available-for-sale

	December 31, 2011	December 31, 2010	December 31, 2009
Debt securities - at fair value:			
Government bonds and treasury bills	4,648,540	3,402,886	960,334
Eurobonds	1,083,123	869,249	919,003
Government and corporate bonds and treasury bills sold under repurchase agreements	705,903	212,492	-
Eurobonds sold under repurchase agreements	-	-	17,585
Other	1,556,284	1,374,753	105,721
Equity securities - at fair value			
Listed	-	240	2,060
Unlisted	23,751	22,136	24,870
Total securities available-for-sale	**8,017,601**	**5,881,756**	**2,029,573**
Current	1,420,408	259,165	584,333
Non-current	6,597,193	5,622,591	1,445,240

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 and other bonds issued by domestic and foreign financial institutions.

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

10. Investment securities (continued)

Net losses from changes in the fair value of available-for-sale investment securities, net of tax is TL 272,516 (2010 - TL 96,447 net gains; 2009 - TL 78,855 net gains). 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, 2011	December 31, 2010	December 31, 2009
At January 1	**5,881,756**	**2,029,573**	**1,854,737**
Additions	4,462,379	9,624,918	17,563,113
Disposals / redemption	(2,119,598)	(5,900,619)	(17,467,940)
Changes in fair value	(319,087)	121,518	87,578
Exchange differences on monetary assets	112,151	6,366	(7,915)
At December 31	**8,017,601**	**5,881,756**	**2,029,573**

(ii) Securities held-to-maturity

	December 31, 2011	December 31, 2010	December 31, 2009
Debt securities - at amortized cost - listed:			
Government bonds and treasury bills	3,348,279	5,248,357	6,830,558
Eurobonds	2,762,711	3,992,525	4,960,654
Government bonds and treasury bills sold under repurchase agreements	300,525	224,251	65,815
Eurobonds sold under repurchase agreement	6,166,696	3,409,920	1,309,650
Foreign government bonds(1)	132,411	99,891	152,042
Total securities held-to-maturity	**12,710,622**	**12,974,944**	**13,318,719**
Current	271,177	2,218,609	2,919,490
Non-current	12,439,445	10,756,335	10,399,229

(1) Necessary impairment provision has been provided for foreign government securities of Eurozone sovereign countries held in Group companies where the Group has insignificant amount of exposure.

The movement in held-to-maturity securities during the years is as follows:

	December 31, 2011	December 31, 2010	December 31, 2009
At January 1	**12,974,944**	**13,318,719**	**12,705,781**
Additions	563,716	3,020,222	2,008,035
Sales and redemptions	(2,501,567)	(3,383,510)	(1,139,115)
Other(1)	1,673,529	19,513	(255,982)
At December 31	**12,710,622**	**12,974,944**	**13,318,719**

(1) Includes the effect of exchange differences, impairment and changes in interest income accruals

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

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

11. Investment in associate

	December 31, 2011	December 31, 2010	December 31, 2009
At January 1	**71,906**	**58,939**	**55,593**
Share of results	17,035	8,744	5,417
Dividends paid	(2,489)	(2,069)	(1,840)
Exchange difference	13,842	6,292	(231)
Other(1)	83,646	-	-
At December 31	**183,940**	**71,906**	**58,939**

(1) Includes the effect of updating equity pick-up by an amount of TL 83,646 based on financial statements prepared in accordance with International Financial Reporting Standards that were made available this period.

12. Investment in joint venture valued at net equity

As at December 31, 2011, the Group has one investment in jointly controlled entity.

	December 31, 2011	December 31, 2010	December 31, 2009
At January 1	**22,265**	**24,683**	**31,354**
Share of results	(2,615)	(2,418)	(6,671)
At December 31	**19,650**	**22,265**	**24,683**

13. Goodwill

	December 31, 2011	December 31, 2010	December 31, 2009
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.

The recoverable amount of the goodwill have been determined based on value in use calculations, using cash flow projections based on IFRS financial budgets approved by management and on strategic plans covering a five year period. The calculation of value in use ("VIU") is most sensitive to interest margin, discount rates, market share, projected growth rates and local economic indicators.

Discount rates used in the calculations reflect the current market assessment of the Bank's operating units. The method for determining the pre-tax discount rate is to first calculate the VIU using post tax cash flows and discount rates, then solving for the pre-tax discount rate which gives the same VIU as in the post tax calculation. Discount rate is assumed to gradually decrease from 15.9% in 2011 to 12.9% in the long term. Terminal value is calculated with a long term growth rate of 3%.

Based on the analysis performed, management believes that there is no indication for an impairment for goodwill at December 31, 2011 (2010 - None; 2009 - None).

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

14. Other intangible assets

	December 31, 2011	December 31, 2010	December 31, 2009
Cost	519,011	427,847	340,104
Accumulated amortization	(214,248)	(164,180)	(123,663)
Net book amount	**304,763**	**263,667**	**216,441**

Movements of other intangible assets were as follows:

December 31, 2011	Rights and licenses	Software	Trademarks and customer relationships related intangibles	Total
Cost				
At January 1	121,869	142,894	163,084	427,847
Additions	78,403	25,964	-	104,367
Disposals	(4,880)	(11,060)	-	(15,940)
Transfers	(13,256)	15,682	-	2,426
Translation differences	12	299	-	311
At December 31	182,148	173,779	163,084	519,011
Accumulated amortization				
At January 1	(31,871)	(46,690)	(85,619)	(164,180)
Amortization charge (Note 32)	(14,323)	(29,370)	(16,331)	(60,024)
Disposals	1,215	11,051	-	12,266
Transfers	-	(2,265)	-	(2,265)
Translation differences	(5)	(40)	-	(45)
(Reversal of) impairment	-	-	-	-
At December 31	(44,984)	(67,314)	(101,950)	(214,248)
Net book amount at December 31	137,164	106,465	61,134	304,763

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 32)	(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

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

14. Other intangible assets (continued)

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 32)	(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**

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 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, 2011, the net book value of these intangible assets amounts to TL 61,134 (2010 - TL 77,465; 2009 - TL 93,775).

15. Property and equipment

	December 31, 2011	December 31, 2010	December 31, 2009
Cost	3,747,876	3,963,878	3,971,510
Accumulated depreciation and impairment	(2,679,739)	(2,800,798)	(2,815,327)
Net book amount	**1,068,137**	**1,163,080**	**1,156,183**

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

15. Property and equipment (continued)

December 31, 2011	Land and buildings	Office equipments	Furniture and fixtures, vehicles and other	Leasehold improvements	Total
Cost					
At January 1	**2,714,794**	**702,046**	**357,196**	**189,842**	**3,963,878**
Additions	2,469	85,026	31,532	24,250	143,277
Disposals	(325,287)	(19,585)	(16,140)	(4,235)	(365,247)
Transfers	-	(4,169)	3,917	-	(252)
Translation difference	2,135	1,322	465	2,298	6,220
At December 31	**2,394,111**	**764,640**	**376,970**	**212,155**	**3,747,876**
Accumulated depreciation and impairment					
At January 1	**(1,902,858)**	**(541,483)**	**(269,221)**	**(87,236)**	**(2,800,798)**
Depreciation charge (Note 32)	(41,869)	(60,232)	(18,102)	(34,288)	(154,491)
Disposals	146,285	16,235	13,159	4,226	179,905
Transfers	-	3,980	(5,135)	1,246	91
Recoveries	-	-	-	-	-
(Reversal of) impairment , net (Note 32)	98,763	-	-	-	98,763
Translation difference	(880)	(930)	(320)	(1,079)	(3,209)
At December 31	**(1,700,559)**	**(582,430)**	**(279,619)**	**(117,131)**	**(2,679,739)**
Net book amount at December 31	**693,552**	**182,210**	**97,351**	**95,024**	**1,068,137**

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 32)	(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 32)	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**

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

15. Property and equipment (continued)

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 32)	(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 32)	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

At December 31, 2011, total impairment provision on property and equipment of the Parent Bank amounts to TL 348,961 (2010 - TL 572,699; 2009 - TL 627,377).

16. Other assets

	December 31, 2011	December 31, 2010	December 31, 2009
Collaterals given	529,135	497,601	215,881
Gold stocks	603,388	249,772	188,796
Due from insurance policyholders	253,679	194,680	157,394
Prepaid expenses	162,943	124,094	132,298
Repossessed assets, net	110,436	88,020	97,048
Payments for credit card settlements	104,355	67,831	65,113
Advances given	109,146	67,382	17,689
Accounts receivable	48,065	80,379	6,776
Other	222,823	244,136	268,892
	2,143,970	**1,613,895**	**1,149,887**
Current	1,982,446	1,508,558	897,070
Non-current	161,524	105,337	252,817

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

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, 2011	December 31, 2010	December 31, 2009
Cost			
At January 1	**101,285**	**112,202**	**117,605**
Additions	64,432	58,076	16,656
Disposals	(43,558)	(68,993)	(22,059)
Other	-	-	-
At December 31	**122,159**	**101,285**	**112,202**
Impairment			
At January 1	**(13,265)**	**(15,154)**	**(22,456)**
Impairment charge for the year, net (Note 32)	-	-	-
Disposals	1,542	1,889	7,302
Other	-	-	-
At December 31	**(11,723)**	**(13,265)**	**(15,154)**
Net book amount at December 31	**110,436**	**88,020**	**97,048**

17. Deposits from banks

	December 31, 2011			December 31, 2010			December 31, 2009		
	Demand	Term	Total	Demand	Term	Total	Demand	Term	Total
Foreign currency:									
Domestic banks	30,939	238,884	269,823	3,567	467,915	471,482	135,245	160,824	296,069
Foreign banks	15,772	853,023	868,795	30,770	743,408	774,178	8,166	599,628	607,794
Funds deposited under repurchase agreements	-	5,020,957	5,020,957	-	3,151,593	3,151,593	-	1,108,581	1,108,581
	46,711	**6,112,864**	**6,159,575**	**34,337**	**4,362,916**	**4,397,253**	**143,411**	**1,869,033**	**2,012,444**
TL:									
Domestic banks	10,657	91,987	102,644	65,954	92,353	158,307	56,574	9,321	65,895
Foreign banks	121,371	200,610	321,981	92,732	287,178	379,910	76,904	276,936	353,840
Funds deposited under repurchase agreements	-	873,184	873,184	-	-	-	-	-	-
	132,028	**1,165,781**	**1,297,809**	**158,686**	**379,531**	**538,217**	**133,478**	**286,257**	**419,735**
	178,739	**7,278,645**	**7,457,384**	**193,023**	**4,742,447**	**4,935,470**	**276,889**	**2,155,290**	**2,432,179**
Current	178,739	6,502,798	6,681,537	193,023	4,169,376	4,362,399	276,889	2,155,290	2,432,179
Non-current	-	775,847	775,847	-	573,071	573,071	-	-	-

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

18. Customer deposits

	December 31, 2011			December 31, 2010			December 31, 2009		
	Demand	Term	Total	Demand	Term	Total	Demand	Term	Total
Foreign currency deposits:									
Saving deposits	2,587,227	10,142,561	12,729,788	1,967,201	7,541,958	9,509,159	2,076,935	8,229,426	10,306,361
Commercial deposits	3,115,063	14,128,217	17,243,280	2,785,429	9,405,580	12,191,009	2,208,694	6,723,689	8,932,383
	5,702,290	24,270,778	29,973,068	4,752,630	16,947,538	21,700,168	4,285,629	14,953,115	19,238,744
TL deposits:									
Saving deposits	1,940,416	19,368,217	21,308,633	1,812,758	15,843,210	17,655,968	1,440,267	13,946,703	15,386,970
Commercial deposits	3,069,852	10,033,670	13,103,522	2,439,527	11,230,187	13,669,714	1,747,739	5,344,243	7,091,982
Funds deposited under repurchase agreements	-	30,572	30,572	-	67,825	67,825	-	130,100	130,100
Public sector deposits	136,025	102,059	238,084	320,896	76,379	397,275	278,166	55,424	333,590
	5,146,293	29,534,518	34,680,811	4,573,181	27,217,601	31,790,782	3,466,172	19,476,470	22,942,642
	10,848,583	53,805,296	64,653,879	9,325,811	44,165,139	53,490,950	7,751,801	34,429,585	42,181,386
Current	10,848,583	53,189,607	64,038,190	9,325,811	43,767,691	53,093,502	7,751,801	33,739,320	41,491,121
Non-current	-	615,689	615,689	-	397,448	397,448	-	690,265	690,265

19. Funds borrowed

	December 31, 2011	December 31, 2010	December 31, 2009
Foreign institutions and banks			
Syndication loans	4,627,686	3,385,043	2,070,306
Subordinated debt	2,523,816	2,110,274	2,224,023
Other	8,947,535	5,248,988	3,212,281
Total foreign	**16,099,037**	**10,744,305**	**7,506,610**
Domestic banks	1,107,681	1,439,039	1,077,640
Interbank money market and Settlement Custody Bank	961,180	431,598	46,886
Total domestic	**2,068,861**	**1,870,637**	**1,124,526**
	18,167,898	**12,614,942**	**8,631,136**
Current	12,104,782	7,761,132	5,012,536
Non-current	6,063,116	4,853,810	3,618,600

On March 31, 2006, Yapı Kredi obtained a subordinated loan amounting to EUR 500 million, with 10 years maturity and a repayment option at the end of five years. The interest rate was determined as EURIBOR+2% for the first five years. The loan was obtained from Merrill Lynch Capital Corporation with UniCredito Italiano S.p.A. as guarantor. In addition, the subordinated loan obtained by Koçbank on April 27, 2006 amounting to EUR 350 million, with 10 years maturity and a repayment option at the end of 5 years has been transferred to the Bank. The interest rate is determined as EURIBOR+2.25% for the first five years. The loan was obtained from Goldman Sachs International Bank with Unicredit S.p.A. as guarantor. The Bank has not exercised the early repayment option related to these two loans which was available as of the date of these financial statements. In addition, the Bank obtained a subordinated loan on June 25, 2007 amounting to EUR 200 million, with 10 years maturity and a repayment option at the end of 5 years. The interest rate is determined as EURIBOR+1.85% for the first 5 years. The loan was obtained from Citibank, N.A., London Branch with Unicredito Italiano SpA as guarantor. With the written approvals of the BRSA dated April 3, 2006, May 2, 2006 and June 19, 2007, the loans have been approved as subordinated loans and can be taken into consideration as supplementary capital within the limits of the Capital Adequacy Regulation.

19. Funds borrowed (continued)

According to the Regulation, subordinated loans obtained from Merrill Lynch Capital Corporation and Goldman Sachs International Bank are considered in the supplementary capital calculation at the rate of 80% as the remaining maturity of these loans is less than 5 years.

In 2011, the Bank renewed a syndication loan from international banks from 19 countries, 47 banks, consisting of 2 credit tranches with 1 year maturity; one tranche amounting to USD 301 million with total cost of Libor+1,1% and the other tranche amounting to EUR 795 million with total cost of Euribor+1,1%. The agreement was signed on April 19, 2011.

In 2011, the Bank also renewed another syndicated credit facility, in the amount of; USD 285 million with total cost of Libor+1% and EUR 687 million with total cost of Euribor+1%. The facility is provided by 42 banks from 18 countries, consisting of 2 credit tranches with 1 year maturity. The agreement was signed on September 29, 2011.

According to the resolution of the Board of Directors dated February 22, 2012, the Parent Bank has signed a subordinated loan agreement with UniCredit Bank Austria AG, amounting to USD 585 million, with 10 years maturity and a repayment option by the borrower at the end of five years, at an interest rate of 3 months LIBOR+8.30%.

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 and funds obtained from Industrial Development Bank of Turkey ("TSKB") sourced by Council of Europe Development Bank (CEB) to finance export research activities (ERA) of small to medium sized (SME) companies.

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

20. Debt securities in issue

The details of the Group's diversified payment rights securitization transactions and domestic bills/bonds are as follows:

	December 31, 2011	December 31, 2010	December 31, 2009
USD175,000,000 Series 2006-A Floating Rate Notes Due 2014	193,715	211,335	257,266
USD200,000,000 Series 2006-B Floating Rate Notes Due 2014	55,237	60,261	294,019
USD114,000,000 Series 2006-C Floating Rate Notes Due 2013	95,922	117,728	167,569
€279,846,000 Series 2006-D Floating Rate Notes Due 2014	75,377	84,223	590,539
€67,215,000 Series 2007-A Floating Rate Notes Due 2015	43,503	47,673	141,833
USD199,000,000 of Series 2007-B Floating Rate Notes Due 2015	94,732	101,361	292,534
USD112,080,000 of Series 2010-A Floating Rate Notes Due 2015	155,010	169,111	-
USD7,500,000 of Series 2010-B Floating Rate Notes Due 2015	9,220	11,316	-
€179,440,811 of Series 2010-C Floating Rate Notes Due 2015	321,430	359,154	-
€29,659,900 of Series 2010-D Floating Rate Notes Due 2015	54,169	59,362	-
USD102,000,000 of Series 2010-E Floating Rate Notes Due 2015	143,829	153,895	-
USD75,000,000 of Series 2011-A Floating Rate Notes Due 2016	138,450	-	-
€30,000,000 of Series 2011-B Floating Rate Notes Due 2016	71,728	-	-
€100,000,000 of Series 2011-C Floating Rate Notes Due 2016	239,168	-	-
USD150,000,000 of Series 2011-D Floating Rate Notes Due 2016	276,988	-	-
€75,000,000 of Series 2011-E Floating Rate Notes Due 2023	179,303	-	-
Bills	951,004	-	-
Bonds	144,350	-	-
Other	5,582	19,485	718
	3,248,717	1,394,904	1,744,478
Current	1,525,275	348,969	337,673
Non-current	1,723,442	1,045,935	1,406,805
	3,248,717	1,394,904	1,744,478

The Parent Bank has a securitisation borrowing deal from Standard Chartered Bank and Unicredit Markets and Investment Banking amounting USD 406 million and EUR 208 million, the equivalent of TL 1,242,144 using Yapı Kredi Diversified Payment Rights Finance Company ("Special Purpose Entity") as an intermediary and Assured Guaranty, MBIA, Radian, Ambac, FGIC and XL Capital as guarantors. The borrowing has floating interest rates based on Euribor/Libor, the maturity is between 2014 and 2015. The repayments commenced in 2010, and during 2011, a total of TL 387,701 is paid.

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 million 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 USD 310 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 EUR 115 million and one for USD 250 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 USD 600 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.

The Bank also made a securitisation borrowing deal at August and September 2011, from Standard Chartered Bank, Wells Fargo, West LB and SMBC amounting USD 225 million and EUR 206 million, the equivalent of TL 905,637 using Yapı Kredi Diversified Payment Rights Finance Company ("Special Purpose Entity"). The borrowing has floating interest rates based on Euribor/Libor, the maturity is between 2016 and 2023 and repayments will start in the last quarter of 2013.

On October 10, 2011, the Bank issued bonds amounting to TL 150,000 (nominal) at an interest rate of 9,08% with 368 days to maturity and coupon payment within period of 92 days.

On December 5, 2011, the Bank issued domestic bills amounting to TL 1,000,000 (nominal) at an interest rate of 10.62%, issue price of TL 95,34 (full TL) with 168 days to maturity.

These bonds and bills can be re-purchased and re-sold according to the relevant legislation and net outstanding balances are reflected on the accompanying financial statements.

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

21. Taxation

	December 31, 2011	December 31, 2010	December 31, 2009
Current tax expense	(503,926)	(557,370)	(480,911)
Deferred tax income / (expense)	(39,201)	(5,781)	174,965
	(543,127)	**(563,151)**	**(305,946)**

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.

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

21. 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.

As per the Law numbered 6009, taxpayers are permitted to deduct the investment incentive amount to a limit that does not exceed 25% of the related revenues (within the context of December 31, 2005 legislation including the provision on tax rate stated in the second paragraph of temporary Article 61 of income tax legislation) from their income subject to tax.

As per the decision of the Constitutional Court (decision no: E.2010/93, K. 2012/9 dated February 9, 2012) the effect of the sentence "In so far, the amount to be used as investment incentive exception in the determination of the tax base cannot exceed 25% of the related gain" added to 1st article of the 69th clause of the Law No. 193 was suspended until the date of the publication of the cancellation decision in the Official Gazette to preclude any unpreventable consequences or damages that could rise from the application of the sentence, and to prevent the cancellation decision prove abortive as the sentence was cancelled on February 9, 2012 (decision no: E.2010/93, K.2012/20).

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.

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, 2011	December 31, 2010	December 31, 2009
Profit before income taxes	**2,943,564**	**2,798,885**	**1,898,014**
Theoretical income tax at the applicable tax rate of 20%	588,713	559,777	379,603
Effect of different tax rates in other countries	2,300	5,308	2,381
Non-taxable consolidation adjustments	(16,374)	(652)	588
Tax effect of items which are not deductible or assessable for taxation purposes:			
- Income exempt from taxation	(33,197)	(21,408)	(19,765)
- Non-deductible expenses for tax purposes	45,516	27,602	13,435
Utilization of investment incentive	(43,676)	(7,463)	(70,840)
Utilized tax loss carry forward	-	-	591
Other	(155)	(13)	(47)
Income tax expense	**543,127**	**563,151**	**305,946**

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

21. Taxation (continued)

As at December 31, 2011, the Bank has submitted its application to Boğaziçi Corporate Tax Authority and Taxpayers Office to claim for the benefit of the tax amnesty (the Law numbered 6111) regarding 6 tax penalties resulting from tax inspectors' review of 2005, 2006, 2007, 2009 and 2010 fiscal years. As a result of this application, the restructured tax payable amounting to TL 1,332 is paid on due date at once.

In addition, Group companies which have submitted application regarding this law have paid amounts of no significance.

A tax investigation report (No. GKR-2009-748/9, dated November 3, 2009) was issued following the examination of 2004 corporate tax. The Bank objected against Boğaziçi Corporate Tax Office report with No. 2010 / 1614 at İstanbul 3rd Tax Court asking for the cancellation of the tax / penalty notification No. 2009/1. In December 2011 Tax Court (decision no. 2011/4287) accepted only partially the Bank's objection, leaving to the Bank the right to file an appeal to the Council of State. As of December 31, 2011, due to the denied part of the case, the Bank recognized TL 16,640 as current tax provision for additional corporate tax and TL 22,406 as operational expense for tax delay interest in the income statement.

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, 2011 (2010 - 20%; 2009 - 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, 2011, 2009 and 2008 which are as follows:

			Tax rate (%)
Country of incorporation	**December 31, 2011**	**December 31, 2010**	**December 31, 2009**
Russia	20.00	20.00	20.00
Netherlands	25.00	25.50	25.50
Azerbaijan	20.00	20.00	20.00

The deferred income tax assets and liabilities represent the tax effect of temporary differences arising due to the different treatment of certain items of income and expenses included in the financial statements compared to the local tax return in accordance with the applicable tax law plus any available tax loss carried forward from previous years.

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

21. Taxation (continued)

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, 2011	December 31, 2010	December 31, 2009	December 31, 2011	December 31, 2010	December 31, 2009
Impairment on assets	487,269	709,041	764,446	59,701	75,221	86,013
Allowance for loan impairment	1,010,000	966,336	1,004,005	200,775	192,730	200,597
Pension benefits transferable to the Social Security Institution ("SSI") (Note 23)	775,286	838,036	864,059	155,057	167,607	172,812
Reserve for employment termination benefits (Note 23)	113,983	101,700	100,482	22,999	20,486	20,200
Revaluation of derivative instruments at fair value	1,050,724	812,831	612,151	209,998	158,262	122,429
Valuation differences on investment securities	198,970	29,367	37,755	39,796	5,883	7,561
Other	760,995	863,813	808,169	151,990	174,434	161,472
Deferred income tax assets	**4,397,227**	**4,321,124**	**4,191,067**	**840,316**	**794,623**	**771,084**
Difference between carrying value and tax base of property and equipment	647,017	944,583	953,649	81,025	97,174	98,968
Valuation differences on investment securities	182,145	130,270	2,843	36,080	25,704	306
Revaluation of derivative instruments at fair value	821,361	956,156	884,086	164,932	186,416	174,320
Assets capitalised under finance leases	-	-	8,088	-	-	1,618
Other	37,559	53,253	66,784	6,544	11,272	13,082
Deferred income tax liabilities	**1,688,082**	**2,084,262**	**1,915,450**	**288,581**	**320,566**	**288,294**
Deferred income tax assets, net	**2,709,145**	**2,236,862**	**2,275,617**	**551,735**	**474,057**	**482,790**

The movements of net deferred income taxes during the years were as follows:

	December 31, 2011	December 31, 2010	December 31, 2009
Balance at January 1	**474,057**	**482,790**	**307,928**
(Charge) / credit for the year, net	(39,201)	(5,781)	174,965
Available-for-sale revaluation reserve	49,161	(24,054)	370
Net investment hedge	17,792	(3,897)	588
Cash flow hedge	51,675	25,457	-
Translation difference	(1,749)	(458)	(1,061)
Balance at December 31	**551,735**	**474,057**	**482,790**

There are no deductible temporary differences for which no deferred tax asset is recognized in the statement of financial position (2010 - None; 2009 - None).

Income tax effects relating to components of other comprehensive income

	December 31, 2011			December 31, 2010			December 31, 2009		
	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	141,035	-	141,035	(7,886)	-	(7,886)	256	-	256
Fair value gains on available-for- sale financial assets (including translation difference)	(319,928)	47,412	(272,516)	120,959	(24,512)	96,447	79,546	(691)	78,855
Net investment hedge	(88,958)	17,792	(71,166)	19,484	(3,897)	15,587	(2,941)	588	(2,353)
Cash flow hedge	(258,378)	51,675	(206,703)	(127,285)	25,457	(101,828)	-	-	-
Other comprehensive income for the year (net presentation)	**(526,229)**	**116,879**	**(409,350)**	**5,272**	**(2,952)**	**2,320**	**76,861**	**(103)**	**76,758**

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

22. Other provisions

	December 31, 2011	December 31, 2010	December 31, 2009
Provision for losses on credit related commitments	204,871	189,660	181,953
Tax and other legal provisions	151,960	124,712	96,616
Provisions on credit cards and promotion campaigns	33,905	39,697	48,469
Provision on export commitment estimated liability	37,251	39,486	38,261
Other	37,850	63,630	32,572
	465,837	**457,185**	**397,871**
Current	25,188	52,722	14,624
Non-current	440,649	404,463	383,247

Credit related commitments provision

The Group management has estimated losses that may arise from credit related commitments and has recognized a provision of TL 204,871 (2010 - TL 189,660; 2009 - TL 181,953).

Tax and other legal provisions

The Group has recorded a provision of TL 43,528 (2010 - TL 35,886; 2009 - TL 26,668) for litigation and has accounted for it in the financial statements under the "Other provisions" account. Except for the cases where provisions are recorded, management considers as remote the probability of a negative result in ongoing litigations resulting in cash outflows.

The Group also recorded total provision of TL 108,432 (2010 - TL 88,826; 2009 - TL 69,948) against potential tax risks in the form of possible tax duties and penalties in the consolidated financial statements for the year ended December 31, 2011.

Export commitment provision

The Group management has estimated losses that may arise from export loans to customers under legal follow-up that do not have the ability to fulfill their export commitments and has recognized provision of TL 37,251 (2010 - TL 39,486; 2009 - TL 38,261).

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

22. Other provisions (continued)

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, 2011 Total	December 31, 2010 Total	December 31, 2009 Total
At January 1	**189,660**	**124,712**	**39,697**	**39,486**	**63,630**	**457,185**	**397,871**	**377,235**
Provision charged / (released)	15,177	27,765	108,941	(2,235)	(13,238)	136,410	196,911	193,705
Provision used	-	(377)	(114,733)	-	(12,440)	(127,550)	(137,130)	(174,615)
Translation difference	34	(140)	-	-	(102)	(208)	(467)	1,546
Balance at December 31	**204,871**	**151,960**	**33,905**	**37,251**	**37,850**	**465,837**	**457,185**	**397,871**

In addition, as a result of preliminary research conducted in the banking sector regarding the interest rates, an investigation process is initiated on some banks including the Bank according to the Competition Board decision dated November 2, 2011 and no 11-55/1438-M to determine whether there is a violation of the 4th article of the Protection of Competition Law No. 4054, and the process is still ongoing.

23. Retirement benefit obligations

	December 31, 2011	**December 31, 2010**	**December 31, 2009**
Statement of financial position obligations for:			
- Post employment benefits (pension and medical) transferable to SSI	775,286	838,036	864,059
- Reserve for employment termination benefits	113,983	101,700	100,482
	889,269	**939,736**	**964,541**
Income statement (charge) / credit for:			
- Post employment benefits (pension and medical) transferable to SSI	62,750	26,023	(89,693)
- Reserve for employment termination benefits	(36,817)	(19,705)	(20,609)
	25,933	**6,318**	**(110,302)**

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, 2011, 2010 and 2009.

The cash payments to the Fund by the Group which represent the employers' contribution during the year amounting to TL 119,672 (2010 - TL 107,517; 2009 - TL 97,241) has been included staff cost expenses under operating expenses (Note 32). Total expenses on post employment benefits are amounting to TL 56,924 (2010 - TL 81,494; 2009 - TL 186,934).

23. Retirement benefit obligations (continued)

(i) Post employment benefits (pension and medical) transferable to SSI

YKB personnel are members of the Fund which was established in accordance with the 20th temporary article of Social Security Law numbered 506 ("the Social Security Law"). The Banking Law which was enacted on 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. With the new law, the banks' pension funds will be transferred to SSI within three years from the date of publication of the decree and this period can extended for a maximum two years with the decision of the Council of Ministers.

The transfer period is extended for another two years with the decision of the Council of Ministers No. 2011/1559 published in the Official Gazette dated April 9, 2011.

The main opposition party has applied to the Constitutional Court at June 19, 2008 for cancellation of some articles and requested them to be ineffective until the case of abrogation is finalized. The Constitutional Court announced that it has rejected the cancellation request with the decision taken in the meeting dated March 30, 2011. The decision with reasoning is published in the Official Gazette No. 28156 dated December 28, 2011. The Bank accounts for a provision for the technical deficit based on the report prepared by a registered actuary in accordance with the rates determined by the New Law.

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 775,286 on December 31, 2011 (2010 - TL 838,036; 2009: TL 864,059).

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.

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

23. Retirement benefit obligations (continued)

The amounts recognized in the statement of financial position are determined as follows:

	December 31, 2011	December 31, 2010	December 31, 2009
Present value of funded obligations	1,293,105	1,279,566	1,239,133
- Pension benefits transferable to SSI	*1,250,572*	*1,183,533*	*1,077,965*
- Post-employment medical benefits transferable to SSI	*42,533*	*96,033*	*161,168*
Fair value of plan assets	(517,819)	(441,530)	(375,074)
Liability in the statement of financial position	**775,286**	**838,036**	**864,059**

The movement in the defined benefit obligation over the years is as follows:

	Defined benefit pension plans			Post-employment medical benefits		
	December 31, 2011	December 31, 2010	December 31, 2009	December 31, 2011	December 31, 2010	December 31, 2009
At January 1	**1,183,533**	**1,077,965**	**1,036,138**	**96,033**	**161,168**	**27,043**
Current service cost	71,393	64,109	57,983	48,279	43,408	39,259
Interest cost	115,986	105,640	101,542	9,411	15,794	2,650
Contributions by plan participants	60,576	54,396	49,197	32,186	28,939	26,165
Actuarial losses/(gains)	(44,357)	1,917	(60,457)	(136,811)	(122,777)	97,741
Benefits paid	(136,559)	(120,494)	(106,438)	(6,565)	(30,499)	(31,690)
At December 31	**1,250,572**	**1,183,533**	**1,077,965**	**42,533**	**96,033**	**161,168**

The principal actuarial assumptions used were as follows:

	December 31, 2011	December 31, 2010	December 31, 2009
	(%)	(%)	(%)
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	94
Effect on the defined benefit obligation	7,404

Mortality rate

The average life expectancy in years of a pensioner retiring at age 65 for men, 64 for women on the statement of financial position date is as follows:

	December 31, 2011	December 31, 2010	December 31, 2009
Male	14	15	15
Female	18	19	19

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

23. Retirement benefit obligations (continued)

The movement in the fair value of plan assets of the year is as follows:

	December 31, 2011	December 31, 2010	December 31, 2009
At January 1	**441,530**	**375,074**	**288,815**
Actual return on plan assets	80,876	68,445	85,517
Employer contributions	71,395	64,109	57,983
Employee contributions	60,577	54,396	49,197
Benefits paid	(136,559)	(120,494)	(106,438)
At December 31	**517,819**	**441,530**	**375,074**

Plan assets are as follows:

	December 31, 2011		December 31, 2010		December 31, 2009	
Government bonds and treasury bills	195,456	38%	154,902	35%	180,520	48%
Property and equipment	116,055	22%	116,393	27%	113,826	30%
Bank placements	167,717	32%	133,432	30%	29,328	8%
Short term receivables	19,367	4%	19,493	4%	26,907	7%
Other	19,224	4%	17,310	4%	24,493	7%
	517,819	**100%**	**441,530**	**100%**	**375,074**	**100%**

The fair value of the property occupied by the Group is TL 45,600 (2010 - TL 45,600; 2009 - TL 44,604).

Expected contributions to post-employment benefit plans for the year ending December 31, 2012 are TL 237,259.

(ii) Reserve for employment termination benefits

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

	December 31, 2011	December 31, 2010	December 31, 2009
Balance at January 1	**101,700**	**100,482**	**94,889**
Interest costs	4,739	5,949	5,617
Actuarial gains and losses	7,511	9,379	6,554
Annual charge	24,567	4,377	8,438
Paid during the year	(25,063)	(18,385)	(15,031)
Translation difference	529	(102)	15
Balance at December 31	**113,983**	**101,700**	**100,482**

The total of interest cost, actuarial gains and losses and annual charge for the year amounting to TL 36,817 (2010 - TL 19,705; 2009 - TL 20,609) were included in provision for retirement benefit obligations.

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

23. Retirement benefit obligations (continued)

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 2,805.04 - full (January 1, 2011 - TL 2,623.23-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.

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

	December 31, 2011	December 31, 2010	December 31, 2009
Discount rate (%)	4.66	4.66	5.92
The probability of retirement (%)	94.94	94.71	94.78

Additionally, the principal actuarial assumption is that the maximum liability of TL 2.805,04 -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 2.805,04 - 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.

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

24. Insurance business

	December 31, 2011	December 31, 2010	December 31, 2009
Mathematical reserve	322,680	278,586	293,064
Unearned premium reserve	358,213	280,511	218,903
Profit share reserve	243,658	250,472	242,929
Outstanding claim reserve	113,793	94,191	95,336
Insurance IBNR reserve	25,550	26,947	16,572
Total	**1,063,894**	**930,707**	**866,804**
Insurance liabilities and reinsurance assets			
Gross insurance liabilities			
Life mathematical reserves	566,338	529,058	535,993
Reserve for unearned premiums	482,852	336,776	273,912
Claims provision	255,130	195,420	161,539
Total	**1,304,320**	**1,061,254**	**971,444**
Recoverable from reinsurers			
Reserve for unearned premiums	(124,639)	(56,265)	(55,009)
Claims provision	(115,787)	(74,282)	(49,631)
Total	**(240,426)**	**(130,547)**	**(104,640)**
Net insurance liabilities			
Life mathematical reserves	566,338	529,058	535,993
Reserve for unearned premiums	358,213	280,511	218,903
Claims provision	139,343	121,138	111,908
Total	**1,063,894**	**930,707**	**866,804**

Income from insurance business during the years ended were as follows;

	December 31, 2011	December 31, 2010	December 31, 2009
Earned premiums, net of reinsurance	819,133	658,363	533,275
Claims incurred, net of reinsurance	(617,902)	(542,602)	(524,225)
Commissions, net	(9,411)	(6,275)	(4,117)
Other income/(expense), net	(34,455)	6,679	17,599
Income from insurance business	**157,365**	**116,165**	**22,532**

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

25. Other liabilities

	December 31, 2011	December 31, 2010	December 31, 2009
Credit card payables	3,438,982	2,983,071	2,231,562
Miscellaneous payables to customers	289,980	354,188	431,387
Blocked accounts	583,806	541,378	277,609
Clearing accounts	255,673	278,067	185,972
Premium and bonuses payable to personnel	91,226	83,414	130,672
Taxes other than on income and withholdings	154,238	145,464	111,371
Provision for unused annual vacation	92,702	80,580	65,720
Import deposit and transfer orders	125,795	50,174	58,188
Unearned income	90,607	49,354	39,037
Advances taken	19,635	27,764	24,921
Saving Deposits Insurance Fund payable	20,148	17,004	15,550
Other	858,249	554,628	544,066
Total	**6,021,041**	**5,165,086**	**4,116,055**
Current	6,013,412	5,139,630	4,105,787
Non-current	7,629	25,456	10,268

26. Acquisitions and mergers

(i) Mergers, transfers and acquisitions in the year 2011

None.

(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, 2009. 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 and classified as share certificates under available for sale portfolio.

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

27. Share capital and share premium

The historic amount of share capital of the Bank consists of 434,705,128.40 (2010 - 434,705,128.40; 2009 - 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 (2010 - TL 4,347,051; 2009 - TL 4,347,051). In 2008, the Bank increased its issued capital by TL 920,000 from TL 3,427,051 to TL 4,347,051 all in cash within the Bank's registered capital ceiling of TL 5,000,000.

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

	December 31, 2011		December 31, 2010		December 31, 2009	
Shareholders	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 AZN 6,336,200 (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 differences 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".

28. Retained earnings and other reserves

	December 31, 2011	December 31, 2010	December 31, 2009
Statutory reserve	266,998	163,984	96,245
Translation reserves	246,166	105,131	113,017
Revaluation reserve - available-for-sale investments	(80,672)	191,056	94,469
Hedging reserves	(431,848)	(153,979)	(67,738)
Total other reserves	**644**	**306,192**	**235,993**
Retained earnings	**8,047,016**	**5,756,268**	**3,594,934**

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

28. 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, 2011	**163,984**	**191,056**	**105,131**	**(153,979)**	**306,192**
Net change in available-for-sale investments, net of tax	-	(271,728)	-	-	(271,728)
Gains / (losses) on hedges of a net investment in a foreign operation	-	-	-	(71,166)	(71,166)
Losses on cash flow hedges	-	-	-	(206,703)	(206,703)
Currency translation differences	-	-	141,035	-	141,035
Transfer to statutory reserves	103,014	-	-	-	103,014
At December 31, 2011	**266,998**	**(80,672)**	**246,166**	**(431,848)**	**644**

	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 / (losses) 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
Gains / (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**

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

28. Retained earnings and other reserves (continued)

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

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

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

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

The Group's share in the total legal reserves and extraordinary reserves of the Bank and the consolidated subsidiaries amounting to TL 502,769 (December 31, 2010 - TL 380,805; December 31, 2009 - TL 261,346) and TL 5,425,773 (December 31, 2010 - TL 3,367,865; December 31, 2009 - TL 1,970,416), respectively, have been presented under retained earnings.

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

29. Net interest income

	December 31, 2011	December 31, 2010	December 31, 2009
Interest income on:			
Loans and advances:			
- to banks	103,009	74,359	66,803
- to customers	5,784,728	4,665,227	5,283,023
Trading and investment securities	1,517,943	1,231,836	1,422,673
Derivative financial instruments	289,444	330,742	396,903
Financial leases	222,355	199,400	254,671
Reserve deposits	505	58,431	114,668
Other	43,520	56,140	96,801
Total interest income	**7,961,504**	**6,616,135**	**7,635,542**
Interest expense on:			
Due to customers	(3,103,835)	(2,287,023)	(2,866,166)
Funds borrowed	(543,121)	(375,991)	(477,008)
Derivative financial instruments	(635,140)	(523,565)	(319,171)
Securities issued	(77,445)	(24,674)	(44,863)
Repurchase agreements	(261,389)	(49,775)	(62,832)
Deposits from banks	(33,469)	(43,738)	(28,452)
Other	(79,396)	(28,931)	(2,536)
Total interest expense	**(4,733,795)**	**(3,333,697)**	**(3,801,028)**
Net interest income	**3,227,709**	**3,282,438**	**3,834,514**

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

30. Net fee and commission income

	December 31, 2011	December 31, 2010	December 31, 2009
Fee and commission income on:			
Credit/debit cards	876,208	755,687	764,711
Banking services	870,386	704,264	587,524
Assets under management	225,296	272,588	251,363
Loans			
- Credit related commitments	253,169	230,171	213,660
- Loans and advances	114,203	93,015	115,876
Brokerage	58,339	59,123	55,858
Insurance products	29,032	36,926	37,216
Factoring	19,409	14,154	8,947
Other	61,043	52,504	41,064
Total fee and commission income	**2,507,085**	**2,218,432**	**2,076,219**
Fee and commission expense on:			
Credit/debit cards	(268,969)	(210,192)	(201,379)
Insurance products	(79,112)	(61,324)	(55,039)
Brokerage	(6,603)	(4,447)	(4,798)
Factoring	(3,094)	(2,579)	(2,619)
Funds borrowed	(1,015)	(793)	(1,258)
Other	(92,555)	(69,144)	(86,430)
Total fee and commission expense	**(451,348)**	**(348,479)**	**(351,523)**
Net fee and commission income	**2,055,737**	**1,869,953**	**1,724,696**

31. Net trading, hedging and fair value income and net gains / losses from investment securities

	December 31, 2011	December 31, 2010	December 31, 2009
Foreign exchange:			
- Translation gains less losses of trading securities	7,577	6,172	7,829
- Transaction gains less losses	154,353	258,017	251,789
Interest rate instruments	(90,591)	(303,634)	(155,823)
Equities	(4,067)	2,834	15,525
Credit derivatives	(28,330)	11,153	-
Net income from financial instruments designated at fair value	-	-	(642)
	38,942	**(25,458)**	**118,678**

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 47,353 (2010 - TL 97,153 gains; 2009 - TL 33,225 gains) comprise of net results on disposals of available-for-sale and held-to-maturity financial assets.

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

32. Other operating expenses

	December 31, 2011	December 31, 2010	December 31, 2009
Staff costs	**(1,349,133)**	**(1,203,106)**	**(1,148,078)**
Depreciation on property and equipment (Note 15)	(154,491)	(142,667)	(145,629)
Amortization of intangible assets (Note 14)	(60,024)	(46,089)	(38,296)
Depreciation and amortization	**(214,515)**	**(188,756)**	**(183,925)**
(Impairment charge) / reversal of impairment on property and equipment (Note 15)	98,763	52,942	3,888
(Impairment charge) / reversal of impairment on other intangible assets (Note 14)	-	2,770	-
Impairment charge on assets held for resale (Note 16)	-	-	-
Impairment (charge) / reversal	**98,763**	**55,712**	**3,888**
Rent expenses	(152,005)	(125,260)	(118,609)
Sundry taxes and duties	(78,954)	(100,779)	(62,396)
Communication expenses	(97,405)	(90,101)	(93,509)
Marketing and advertisement costs	(76,496)	(82,411)	(63,402)
Payment to Saving Deposit Insurance Fund	(72,972)	(64,605)	(62,073)
Utilities	(39,127)	(37,116)	(36,737)
Audit and consultancy fees	(62,606)	(29,700)	(21,139)
Repair and maintenance expenses	(30,856)	(29,073)	(28,642)
Charities	(5,032)	(4,680)	(377)
Other	(423,284)	(424,566)	(374,062)
General administrative expenses	**(1,038,737)**	**(988,291)**	**(860,946)**
Total	**(2,503,622)**	**(2,324,441)**	**(2,189,061)**

33. Impairment losses on loans, investment securities and credit related commitments

	December 31, 2011	December 31, 2010	December 31, 2009
Impairment losses on loans and receivables (Note 9)	(263,859)	(385,202)	(1,608,283)
Impairment losses on investment securities (Note 10)	(46,378)	-	-
Impairment losses on credit related commitments (Note 22)	(15,177)	(7,929)	(8,243)
	(325,414)	**(393,131)**	**(1,616,526)**

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

34. 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, 2011 (2009 - none; 2008 - none).

The earnings attributable to basic shares for each period are as follows

	December 31, 2011	December 31, 2010	December 31, 2009
Profit attributable to equity holders of the Parent	2,393,762	2,229,073	1,581,830
Weighted average number of ordinary shares in issue (thousand) (1 Kr each)	434,705,128	434,705,128	434,705,128
Basic and diluted earnings per share (expressed in TL, full amount per thousand share)	**5.51**	**5.13**	**3.64**

35. Assets pledged and restricted

The Group has the following assets pledged as collateral:

	December 31, 2011		December 31, 2010		December 31, 2009	
	Assets	Related liability	Assets	Related liability	Assets	Related liability
Trading securities (Note 7)	57,144	-	116,457	32,914	66,654	51,748
Investment securities (Note 10)	10,676,414	6,098,257	5,822,846	3,186,504	2,871,251	1,186,933
Other assets pledged [1]	529,154	-	497,616	-	215,980	-
Total	11,262,712	6,098,257	6,436,919	3,219,418	3,153,885	1,238,681

(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, held-to-maturity and trading securities whose total carrying amount is TL 7,360,908 as of December 31, 2011 (2010 - TL 3,890,397; 2009 - TL 1,459,704) are pledged to banks and other financial institutions against borrowed funds and funds obtained under repurchase agreements and total return swap transactions. Total amount of funds obtained under repurchase agreements and total return swaps is TL 6,098,257 as of December 31, 2011 (2010 - TL 3,219,418; 2009 - TL 1,238,681). 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.

35. 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 3,372,650 (2010 - TL 2,048,906; 2009 - 1,550,481).

As of December 31, 2011, the Group's reserve deposits that are not available for unrestricted use, including those at foreign central banks, amount to TL 7,567,478 (2010 - TL 4,389,977; 2009 - TL 2,858,552). There is also TL 134,544 blocked amount in foreign banks account.

36. 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 22).

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.

As of December 31, 2011 the Group's commitments for unused credit card limits amount to TL 13,713,682 (2010 - TL 11,727,679; 2009 - TL 10,954,268).

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

36. 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, 2011(1)	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	2,727,074	1,802,256	477,654	-	5,006,984
Letter of guarantees	9,164,695	3,183,647	5,468,158	998,213	18,814,713
Acceptance credits	158,915	-	-	-	158,915
Other commitments	913,922	647,746	815,288	14,941	2,391,897
Total	**12,964,606**	**5,633,649**	**6,761,100**	**1,013,154**	**26,372,509**

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**

(1) Based on original maturities.

37. 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 card payment systems, SME (small medium size enterprises) banking and individual banking. Retail Banking products and services offered to customers include card payment systems, consumer loans (including general purpose loans, auto loans and mortgages), commercial installment loans, SME loans, time and demand deposits, investment accounts, life and non-life insurance products and payroll services. Card payment systems cover the management of products and services for member merchants as well as the sales and marketing operations for a variety of customer types. Crystal, Play, Adios and Taksitçi are the other card brands providing different services for the different segments within the World brand, shopping and marketing platform of the Bank. The Bank also offers debit cards and a prepaid card named World Hediye Card.

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

37. Segment analysis (continued)

Corporate and Commercial Banking is organised into two sub-segments: Commercial Banking, which serves mid-sized companies; and Corporate Banking, which serves large local and multinational companies. Corporate and Commercial Banking provides products and services including working capital financing, foreign trade finance, project finance, leasing and factoring, domestic and international non-cash credit line facilities such as letters of credit and guarantees, cash management and e-banking services.

Through its Private Banking and Wealth Management activities, the Group serves high net worth customers and delivers investment products to this customer segment. Among the products and services offered to Private Banking customers are time deposits, mutual funds, derivative products such as forwards, futures and options, personal loans, foreign exchange, gold and equity trading, pension plans, insurance products, safe deposit boxes and e-banking services. Private Banking services are enhanced by investment advisory and portfolio management services provided by the Parent Bank and its portfolio management and brokerage subsidiaries.

The Group's widespread branch network and alternative distribution channels including ATMs, telephone banking, internet banking and mobile banking are utilized to serve customers in all segments.

Foreign operations include the Group's banking transactions in the Netherlands, Azerbaijan and Russia.

Other operations mainly consist of treasury management's results, operations of supporting business units, insurance operations and other unallocated transactions.

The Group's management manages segment performance based on IFRS consolidated figures.

December 31, 2011	Retail banking	Corporate and commercial banking	Private banking and wealth management	Foreign operations	Other[1]	Consolidation adjustments[2]	Group
Segment revenue[3]	2,685,663	1,604,864	268,004	166,060	1,150,218	(21,329)	5,853,480
Segment expenses[3]	(1,530,913)	(457,862)	(113,161)	(92,845)	(801,169)	71,614	(2,924,336)
Segment result	1,154,750	1,147,002	154,843	73,215	349,049	50,285	2,929,144
Operating profit	**1,154,750**	**1,147,002**	**154,843**	**73,215**	**349,049**	**50,285**	**2,929,144**
Share of results of associates and joint ventures					14,420		14,420
Profit before tax	**1,154,750**	**1,147,002**	**154,843**	**73,215**	**363,469**	**50,285**	**2,943,564**
Income tax expense					(543,127)		(543,127)
Profit for the period[3]	**1,154,750**	**1,147,002**	**154,843**	**73,215**	**(179,658)**	**50,285**	**2,400,437**
December 31, 2011							
Segment assets[3]	30,571,485	37,115,147	1,650,479	5,060,800	43,718,531	(2,263,314)	115,853,128
Associates and joint ventures					203,590		203,590
Total assets	**30,571,485**	**37,115,147**	**1,650,479**	**5,060,800**	**43,922,121**	**(2,263,314)**	**116,056,718**
Segment liabilities[3]	25,921,556	26,670,552	16,735,355	4,241,975	44,991,994	(2,504,714)	116,056,718
Total liabilities	**25,921,556**	**26,670,552**	**16,735,355**	**4,241,975**	**44,991,994**	**(2,504,714)**	**116,056,718**

(1) Other segment liabilities also include the equity.
(2) Consolidation adjustments include transactions with subsidiaries and investments consolidated and other consolidated adjustments in these financial statements.
(3) Segment asset and liabilities figures are prepared according to Management Information Systems (MIS) data.

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

37. Segment analysis (continued)

December 31, 2010	Retail banking	Corporate and commercial banking	Private banking and wealth management	Foreign operations	Other[1]	Consolidation adjustments[2]	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**

(1) Other segment liabilities also include the equity.
(2) Consolidation adjustments include transactions with subsidiaries and investments consolidated and other consolidated adjustments in these financial statements.

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

(1) Other segment liabilities also include the equity.
(2) Consolidation adjustments include transactions with subsidiaries and investments consolidated and other consolidated adjustments in these financial statements.

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

38. 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 UCG, 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, 2011		December 31, 2010		December 31, 2009	
	Share in total	Total %	Share in total	Total %	Share in total	Total %
Loans and advances to customers, net	1,201,726	2	1,663,655	3	1,073,663	3
Trading and investment securities	2,914	-	179	-	22,359	-
Derivative financial instruments	496	1	11,217	2	20,133	3
Loans and advances to banks	4,903	-	5,657	-	1,423	-
Other assets	797	-	761	-	139	-
Total assets	**1,210,836**		**1,681,469**		**1,117,717**	
Customer deposits	7,082,705	11	7,471,208	14	4,270,341	10
Funds borrowed	4,866,028	27	2,187,131	18	1,167,800	14
Derivative financial instruments	4,075	1	6,395	2	3,395	1
Other liabilities	2,389	-	3,136	-	1,694	-
Deposits from banks	494,191	7	3	-	166	-
Total liabilities	**12,449,388**		**9,667,873**		**5,443,396**	
Commitment under derivative instruments	313,380	1	868,457	1	1,088,205	3
Credit related commitments	955,922	4	755,890	4	606,281	4
Total commitments and contingent liabilities	**1,269,302**		**1,624,347**		**1,694,486**	

(ii) Transactions with related parties:

	December 31, 2011		December 31, 2010		December 31, 2009	
	Share in total	Total %	Share in total	Total %	Share in total	Total %
Interest income on loans and advances to customers	82,336	1	111,750	2	91,771	2
Fee and commission income	12,891	1	17,802	1	27,294	1
Interest income on financial leases	1,350		-	-	1,414	1
Interest income on loans and advances to banks	133	-	92	-	14	-
Other operating income	58,216	27	4,070	2	9	-
Total interest and fee income	**154,926**		**133,714**		**120,502**	
Interest expense on deposits	(472,066)	15	(320,623)	14	(328,426)	11
Interest expense on funds borrowed	(48,324)	9	(16,788)	4	(23,864)	5
Other operating expense	(11,639)	-	(9,396)	-	(8,820)	-
Fee and commission expense	(3)	-	(2)	-	(2)	-
Total interest and fee expense	**(532,032)**		**(346,809)**		**(361,112)**	

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

38. Related party transactions (continued)

(iii) Balances with directors and other key management personnel:

	December 31, 2011	December 31, 2010	December 31, 2009
Loans and advances to customers, net	176	232	177
Interest income on loans and advances to customers	6	6	10
Customer deposits	43,437	29.590	35,932
Interest expense on deposits	813	421	369
Fee and commission income	-	-	-
Commitments and contingent liabilities	-	-	-

Salaries and other benefits paid to the Group's key management approximately amount to TL 30,299 as of December 31, 2011 (2010 - TL 30,808; 2009 - TL 35,238).

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 UCG entities.

39. Assets under management

At December 31, 2011, the Group manages 40 mutual funds (2010 - 37; 2009 - 26) with total fund value of TL 5,198,019 (2010 - TL 6,051,473; 2009 - TL 5,275,858) and 13 private pension funds (2010 - 23; 2009 - 21) with total fund value of TL 2,286,234 (2010 - TL 2,392,653; 2009 - TL 1,745,533), which were established under Capital Market Board ("CMB") regulations.

40. Post balance sheet events

1. In the meeting held on January 18, 2012, the Board decided to submit to the approval of shareholders at the General Assembly the extension of the registered capital ceiling of the Bank which will expire at the end of 2012 until the end of 2016 and the authorization to the Management regarding obtaining permits (required from Banking Regulation and Supervision Agency, Capital Market Board and other relevant authorities for a change as indicated in the accompanying Articles of Association of the Bank, "Capital," Chapter 8) to increase the amount of the Authorized Capital from TL 5,000,000 to TL 10,000,000.

2. On February 8, 2012, the Bank finalized a bond issuance of USD 500 million with 5 years maturity with a fixed semi-annual coupon rate of 6.75% managed by J.P. Morgan Securities Ltd., Standard Chartered Bank and UniCredit Bank AG.

3. On February 6, 2012, the Bank has issued TL 400,000 nominal value discounted bill with a simple interest rate of 9.95%, 161 days to maturity and issued bonds amounting to TL 150,000 nominal value with a quarterly coupon at an interest rate of 2.48% with 368 days to maturity.

4. On February 17, 2012, the Bank completed a private placement bond issuance amounting to TL 30,000 nominal value with 6 year maturity and semi annual coupon payment.

5. By the decision of the Constitutional Court (decision no: E.2010/93, K. 2012/9 dated February 9, 2012) the effect of the sentence "In so far, the amount to be used as investment incentive exception in the determination of the tax base cannot exceed 25% of the related gain" added to 1st article of the 69th clause of the Law No. 193 was suspended until the date of the publication of the cancellation decision in the Official Gazette to preclude any unpreventable consequences or damages that could rise from the application of the sentence, and to prevent the cancellation decision prove abortive as the sentence was cancelled on February 9, 2012 (decision no: E.2010/93, K.2012/20).

40. Post balance sheet events (continued)

6. According to the resolution of the Board of Directors dated February 22, 2012, the Parent Bank has signed a subordinated loan agreement with UniCredit Bank Austria AG, amounting to USD 585 million, with 10 years maturity and a repayment option by the borrower at the end of five years, at an interest rate of 3 months LIBOR+8.30%.

7. According to the resolution of the Board of Directors dated February 29, 2012, the management of the Parent Bank have been authorized for application to regulatory authorities for the issuance of TL bonds/bills up to TL 2,250,000 with various maturities.

8. According to the resolution of the Board of Directors dated February 29, 2012, the management of the Parent Bank has been authorized to maintain the procedures to de-list Yapı Kredi Leasing from the stock exchange in conformity with the communiqué "Policies and Procedures on Voluntarily De-Listing of Quoted Companies" published CMB on July 30, 2010. As a result of the pre-calculation done in accordance with the article 6/B-ii in the Communiqué, the minimum call price is calculated as TL 5.02. The final call price will be determined after the approval of CMB upon receiving the independent expert reports that will be prepared in accordance with article 6/B-i.

9. According to the resolution of the Board of Directors dated February 29, 2012, the Board decided the General Assembly to be held on March 22, 2012.