



**Finansbank Anonim Şirketi
And Subsidiaries**

Consolidated Financial Statements
as at and for the Years Ended
December 31, 2011, 2010 and 2009

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Independent Auditor's Report

To the Board of Directors of
Finansbank Anonim Şirketi
İstanbul

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Finansbank A.Ş. (the "Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial positions as at December 31, 2011, 2010 and 2009 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for each of the three years then ended and a summary of significant accounting policies and other explanatory information.

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 the 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 whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 give a true and fair view of the financial positions of Finansbank Anonim Şirketi and its subsidiaries as at December 31, 2011, 2010 and 2009 and of their financial performance and cash flows for each of the three years then ended in accordance with International Financial Reporting Standards.

Istanbul, April 27, 2012

DRT Bağımsız Denetim ve ŞMMM A.Ş.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MUŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

Certification of the Board of Directors and Chief Financial Officer

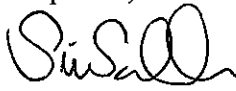
We, the members of the Board of Directors of Finansbank A.Ş. certify that to the best of our knowledge:

The financial statements for the annual period ended December 31, 2011, 2010 and 2009 have been prepared in accordance with the current accounting standards and present a true and fair view of the assets, liabilities equity and results of operation of the Bank and of the consolidated companies included in the consolidation.



Mehmet Ömer Arif Aras

Chairman

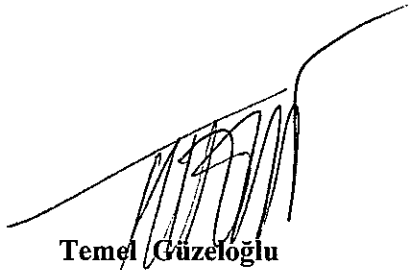
April 27, 2012

Sinan Şahinbaş

Vice Chairman



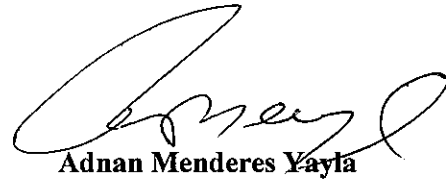
Mustafa A. Aysan

Member of the Board of
Directors and Chairman of the
Audit Committee



Temel Güzeloglu

General Manager and Member of the
Board of Directors



Adnan Menderes Yayla

Chief Financial Officer

FİNANSBANK ANONİM ŞİRKETİ
CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED
DECEMBER 31, 2011, 2010 AND 2009

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated

	Notes	12 month period ended December 31,		
		2011	2010	2009
Continuing Operations				
Interest income	6	4,787,596	4,028,901	4,158,275
Interest expense	6	(2,699,953)	(1,946,467)	(2,144,079)
Net interest income		2,087,643	2,082,434	2,014,196
Fee and commission income	7	771,433	552,058	531,072
Fee and commission expense	7	(43,111)	(35,967)	(35,355)
Net fee and commission income		728,322	516,091	495,717
Earned premium net of reinsurance	8	115,451	88,284	79,594
Net claims incurred	8	(34,602)	(30,564)	(44,900)
Earned premium net of claims and commissions		80,849	57,720	34,694
Dividend income		258	326	1,479
Net trading income and results from investment securities	9	110,185	107,607	95,780
Other operating income	10	42,721	50,827	18,740
Total operating income		3,049,978	2,815,005	2,660,606
Personnel expenses	11	(737,939)	(632,790)	(557,618)
General and administrative expenses	13	(685,463)	(619,174)	(515,602)
Depreciation, amortization and impairment charges	14	(128,021)	(108,245)	(92,051)
Impairment losses on loans and advances to customers, finance lease receivables and factoring receivables	15	(345,061)	(272,935)	(492,205)
Share of gains/(losses) of associates	28	219	576	(409)
Other operating expenses	16	(57,294)	(50,525)	(62,735)
Profit before tax from continuing operations		1,096,419	1,131,912	939,986
Income tax expense	17	(246,755)	(218,715)	(157,044)
Profit for the year from continuing operations		849,664	913,197	782,942
Discontinued Operations				
Net profit from discontinued operations (net of income tax)	18	-	-	13,908
Gain on disposal of discontinued operations (net of income tax)	18	-	-	33,469
Profit for the year from discontinued operations (net)		-	-	47,377
Profit for the year		849,664	913,197	830,319
Attributable to:				
Equity holders of the Parent		836,053	898,405	813,254
Non-controlling interest		13,611	14,792	17,065
Earnings per share - Basic and Diluted (Full TL)				
From discontinued operations	19	-	-	0.0021
From continuing operations	19	0.0347	0.0372	0.0355

The accompanying policies and explanatory notes are an integral part of these consolidated financial statements.

FİNANSBANK ANONİM ŞİRKETİ
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated

		12 month period ended December 31,		
	Notes	2011	2010	2009
Profit for the year		849,664	913,197	830,319
Other comprehensive income				
Available-for-sale investments reserve	27	(468,283)	55,120	105,683
Net change in fair value		(235,099)	173,362	141,115
Net amount transferred to profit or loss		(233,184)	(118,242)	(35,432)
Currency translation reserve		-	-	(19,924)
Transfer to profit and loss upon disposal of foreign subsidiary		-	-	(19,924)
Net gains / (losses) on cash flow hedges		18,519	(26,470)	-
Net change in fair value		13,797	(26,129)	-
Net amount transferred to profit or loss		4,722	(341)	-
Income tax relating to components of other comprehensive income	31	89,953	(5,730)	(27,939)
Other comprehensive income for the year, net of tax		(359,811)	22,920	57,820
Total comprehensive income for the year		489,853	936,117	888,139
Total comprehensive income attributable to:		489,853	936,117	888,139
Equity holders of the Parent		476,242	921,325	871,074
Non-controlling interests		13,611	14,792	17,065

The accompanying policies and explanatory notes are an integral part of these consolidated financial statements.

FINANSBANK ANONİM ŞİRKETİ
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT DECEMBER 31, 2011, 2010 AND 2009

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated

	Notes	December 31, 2011	December 31, 2010	December 31, 2009
ASSETS				
Cash and balances with T.R. Central Bank	20	2,964,593	2,394,476	1,792,445
Due from banks	21	2,095,889	1,020,904	1,418,769
Financial assets at fair value through profit or loss	22	102,670	207,583	229,375
Derivative financial assets	23	2,015,597	421,018	425,288
Loans and advances to customers	24	30,960,428	26,152,685	19,636,587
Factoring receivables	25	255,831	221,065	37,046
Finance lease receivables	26	1,000,203	918,424	959,048
Available for sale investments	27	6,833,524	7,230,439	5,334,952
Investments in associates	28	3,186	2,967	391
Intangible assets	29	147,264	110,866	74,802
Property and equipment	30	422,072	392,463	401,361
Current tax assets	17	-	-	50,499
Deferred tax assets	31	16,076	28,293	28,063
Insurance related assets and receivables	32	28,204	16,692	9,357
Other assets	33	552,259	462,224	387,533
Total assets		47,397,796	39,580,099	30,785,516
LIABILITIES				
Due to other banks	34	2,361,602	2,037,579	1,644,886
Customer deposits	35	28,733,320	23,176,517	18,451,224
Derivative financial liabilities	23	1,272,290	802,315	270,669
Debt securities issued	36	1,443,488	417,340	628,470
Funds borrowed	37	5,132,226	5,237,439	3,781,033
Insurance related reserves and liabilities	38	78,461	48,609	33,280
Current tax liabilities	17	85,880	72,849	4,328
Deferred tax liabilities	31	73,178	159,434	191,347
Retirement benefit obligations	12	34,784	28,682	22,796
Other liabilities	39	1,602,101	1,500,339	1,124,564
Total liabilities		40,817,330	33,481,103	26,152,597
EQUITY				
Share capital issued	41	2,440,000	2,205,000	1,575,000
Share premium		714	665	-
Available for sale investments reserve, net of tax		(251,696)	122,930	78,834
Net losses on cash flow hedges		(6,361)	(21,176)	-
Reserves and retained earnings	42	4,235,404	3,646,329	2,831,554
Equity attributable to owners of the Group		6,418,061	5,953,748	4,485,388
Non-controlling interest		162,405	145,248	147,531
Total equity		6,580,466	6,098,996	4,632,919
Total equity and liabilities		47,397,796	39,580,099	30,785,516

The accompanying policies and explanatory notes are an integral part of these consolidated financial statements.

FINANSBANK ANONİM ŞİRKETİ
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated

	Share capital	Share premium	Available investments for sale reserve, net of tax	Net gains / (losses) on cash flow hedges, net of tax	Currency translation reserve	Reserves and retained earnings	Equity attributable to owners of the Group	Non-controlling interest	Total
Balance at January 1, 2009	1,500,000	-	1,090	-	19,924	2,120,252	3,641,266	130,274	3,771,540
Profit for the year	-	-	-	-	-	813,254	813,254	17,065	830,319
Other comprehensive income for the year, net of tax	-	-	77,744	-	(19,924)	-	57,820	-	57,820
Total comprehensive income for the year, net of tax	-	-	77,744	-	(19,924)	813,254	871,074	17,065	888,139
Issue of share capital	75,000	-	-	-	-	(75,000)	-	-	-
Dividends paid	-	-	-	-	-	(26,952)	(26,952)	-	(26,952)
Changes in consolidation structure due to disposal of the shares from non-controlling interest in subsidiaries	-	-	-	-	-	-	-	192	192
Balance at December 31, 2009	1,575,000	-	78,834	-	-	2,831,554	4,485,388	147,531	4,632,919
Profit for the year	-	-	-	-	-	898,405	898,405	14,792	913,197
Other comprehensive income for the year, net of tax	-	-	44,096	(21,176)	-	-	22,920	-	22,920
Total comprehensive income for the year, net of tax	-	-	44,096	(21,176)	-	898,405	921,325	14,792	936,117
Issue of share capital	630,000	665	-	-	-	(82,857)	547,808	-	547,808
Changes in consolidation structure due to acquisition of the shares from non-controlling interest in subsidiaries	-	-	-	-	-	(1,092)	(1,092)	(19,423)	(20,515)
Changes in consolidation structure due to disposal of the shares from non-controlling interest in subsidiaries	-	-	-	-	-	319	319	2,348	2,667
Balance at December 31, 2010	2,205,000	665	122,930	(21,176)	-	3,646,329	5,953,748	145,248	6,098,996
Profit for the year	-	-	-	-	-	836,053	836,053	13,611	849,664
Other comprehensive income for the year, net of tax	-	-	(374,626)	14,815	-	-	(359,811)	-	(359,811)
Total comprehensive income for the year, net of tax	-	-	(374,626)	14,815	-	836,053	476,242	13,611	489,853
Issue of share capital	235,000	49	-	-	-	(118,667)	116,382	-	116,382
Dividends paid	-	-	-	-	-	(129,752)	(129,752)	-	(129,752)
Changes in consolidation structure due to disposal of the shares from non-controlling interest in subsidiaries	-	-	-	-	-	1,441	1,441	3,546	4,987
Balance at December 31, 2011	2,440,000	714	(251,696)	(6,361)	-	4,235,404	6,418,061	162,405	6,580,466

The accompanying policies and explanatory notes are an integral part of these consolidated financial statements.

FINANSBANK ANONİM ŞİRKETİ
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009

Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated

	Note	12 month period ended December 31,		
		2011	2010	2009
Cash flows from operating activities				
Interest received		4,707,415	4,145,132	4,325,853
Interest paid		(2,642,969)	(1,707,835)	(2,243,181)
Income from associates and dividends received		258	326	1,479
Fee and commission received		771,433	552,058	531,196
Earned premium net of claims and commissions		110,564	74,346	40,833
Trading gain		(707,260)	268,982	(72,038)
Recoveries of loans previously written off and impaired loans		353,594	524,043	337,371
Fee and commission paid		(43,111)	(35,967)	(35,417)
Cash payments to employees and suppliers		(1,125,964)	(1,022,597)	(907,146)
Cash received from other operating activities		33,499	45,330	13,790
Cash paid for other operating activities		(324,467)	(721,057)	(491,590)
Income taxes paid		(318,001)	(279,179)	(232,805)
Cash flows from operating activities before changes in operating assets and liabilities		814,991	1,843,582	1,268,345
Changes in operating assets and liabilities				
Due from banks		(1,971,907)	(4,322)	2,183
Financial assets at fair value through profit or loss		99,430	15,973	157,039
Loans and advances to customers		(5,062,425)	(6,765,425)	(2,087,968)
Factoring receivables		(37,658)	(184,019)	(37,046)
Finance lease receivables		(29,522)	21,138	267,447
Other assets		(48,258)	(14,768)	(44,585)
Due to other banks		321,767	330,915	(2,181,399)
Customer deposits		5,408,769	4,388,515	6,041,354
Other liabilities		82,652	337,189	238,189
Net cash provided by / (used in) operating activities		(422,161)	(31,222)	3,623,559
Cash flows from investing activities				
Purchases of available for sale investment securities	27	(13,063,752)	(22,515,758)	(11,724,407)
Proceeds from sale and redemption of available for sale investment securities		13,325,517	21,011,659	11,123,488
Acquisitions of subsidiaries, net of cash acquired		-	(22,516)	(800)
Disposal of subsidiary, net of cash disposed		-	-	351,763
Acquisitions of property and equipment	30	(118,080)	(74,532)	(86,857)
Proceeds from the disposal of property and equipment		2,089	14,828	1,849
Acquisitions of intangible assets	29	(78,923)	(66,869)	(39,802)
Net cash (used in) investing activities		66,851	(1,653,188)	(374,766)
Cash flows from financing activities				
Proceeds on issue of equity shares		116,382	547,143	-
Sale of shares in subsidiaries		4,987	4,071	-
Proceeds from funds borrowed and debt securities issued		4,846,000	3,943,522	2,587,122
Payments of funds borrowed and debt securities issued		(4,875,621)	(2,633,951)	(4,932,272)
Dividends paid to equity holders of the parent		(110,292)	(22,909)	-
Net cash (used in) / provided by / (used in) financing activities		(18,544)	1,837,876	(2,345,150)
Effect of net foreign exchange differences		48,018	52,031	(6,424)
Net increase / (decrease) in cash and cash equivalents		(325,836)	205,497	897,219
Cash and cash equivalents at the beginning of the year	44	3,408,685	3,203,188	2,305,969
Cash and cash equivalents at the end of the year	44	3,082,849	3,408,685	3,203,188

The accompanying policies and explanatory notes are an integral part of these consolidated financial statements.

FINANSBANK ANONİM ŞİRKETİ
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated

1 General information

Finansbank Anonim Şirketi (hereinafter the “Bank” or “Finansbank”) was incorporated in Istanbul on September 23, 1987, by Fiba Group (“Fiba”). The Bank was listed on the Istanbul Stock Exchange on February 3, 1990. Currently the Bank only has a free float of 0.19% shares. The registered address of the Bank is at Büyükdere Caddesi, No 129, Gayrettepe 34394 Istanbul, Turkey.

On August 18, 2006, Fiba disposed of 46% of the ordinary shares of Finansbank A.Ş. belonging to Fiba Holding A.Ş. and other group companies and 100 founder shares of Finansbank A.Ş. belonging to Fina Holding A.Ş. to National Bank of Greece S.A. (“NBG”) as per the share purchase agreement signed on April 3, 2006.

On August 18, 2008, NBG accepted the proposal of Fiba Holdings A.Ş. to acquire the remaining shares of Finansbank held by Fiba Holding A.Ş. (9.68%), as provided for in the shareholders agreement between NBG and Fiba. The exercise price was determined in accordance with the agreement and amounted to USD 697 million. On September 26, 2008, NBG Finance (Dollar) Plc acquired the above shares from Fiba Holding A.Ş.

As of December 31, 2011 77.23% of the Bank’s shares are owned by National Bank of Greece S.A. Additional shareholdings of 7.90% and 9.68% are held by NBG International Holdings B.V. and NBG Finance (Dollar) PLC respectively, both 100% subsidiaries of NBG. Therefore, the NBG Group owns 94.8% of the Bank. A shareholding of 5% is held by International Finance Corporation (“IFC”) and is subject to put and call option agreements with NBG and the remaining 0.19% is publicly traded.

The Bank’s ultimate shareholder, (NBG), was founded in 1841 and its shares have been traded on the Athens Stock Exchange since 1880 and on the New York Stock Exchange since 1999. NBG offers services such as retail and commercial banking, asset management, intermediary services and investment banking.

The accompanying consolidated financial statements of the Bank for the year ended December 31, 2011 comprise the Bank and its subsidiaries (together referred to as the “Group”) listed in note 46.

Nature of Activities of the Bank / Group

The Group’s activities include trade finance, corporate and commercial banking, treasury, retail banking and credit card operations. The Bank operates through a total of 522 branches, of which 520 are domestic branches, 1 is the İstanbul Atatürk Airport Free Trade Zone, and an off-shore banking branch in Bahrain.

FİNANSBANK ANONİM ŞİRKETİ
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
Amounts expressed in thousands of Turkish Lira (TL) unless otherwise stated

The Board of Directors consists of the following members:

Executive Members	Title	Date of Appointment
Dr. Ömer A. Aras	Chairman- Executive Member	April 16, 2010
Sinan Şahinbaş	Vice Chairman- Executive Member	April 16, 2010
Temel Güzeloğlu	Board Member and General Manager	April 16, 2010
Non-Executive Members	Title	Date of Appointment
Anthimos Thomopoulos	Board Member	November 9, 2006
Dimitrios Anagnostopoulos	Board Member	September 24, 2009
Edward Nassim	Board Member	April 17, 2007
Paul Mylonas	Board Member and Member of Audit Committee	March 11, 2010
Michael A. Oratis	Board Member and Member of Audit Committee	March 2, 2011
Prof. Dr. Mustafa Aydın Aysan	Board Member and Head of Audit Committee	November 9, 2006
Mustafa Hamdi Görtin	Board Member	April 16, 2010
Agis Leopoulos	Board Member	April 16, 2010
Christos Alexis Komninos	Board Member	February 16, 2011

Members of Board of Directors are elected by the shareholders at the general assembly for 3 years and can be re-elected. The term of the above members expires in 2014 following their election by the shareholders' ordinary general assembly on April 19, 2011.

These financial statements have been approved for issue by the Bank's Board of Directors on April 26, 2012.

2 Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements have been prepared under the historical cost convention except for financial assets measured at fair value such as derivative financial instruments, financial assets at fair value through profit or loss, available-for-sale investments and loans which are designated at fair value through profit or loss.

The consolidated financial statements are presented in Turkish Lira (“TL”) and except as indicated, financial information presented in TL has been rounded to the nearest thousand.

The Bank and its subsidiaries which are incorporated in Turkey, maintain their books of accounts and prepare their statutory financial statements in Turkish Lira (TL) in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law and accounting standards promulgated by the Banking Regulation and Supervision Agency (BRSA), the Capital Markets Board, Turkish Commercial Code and Turkish tax legislation.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Use of available information and application of judgment are inherent in the formation of estimates in the following areas: valuation of over-the-counter (“OTC”) derivatives, unlisted securities, retirement benefits obligation, insurance reserves, impairment of loans and receivables, provisions for taxes and contingencies from litigation. Actual results in the future may differ from those reported.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2.2 Adoption of International Financial Reporting Standards (IFRS)

The following new and revised IFRSs have been applied in the current year and have affected the amounts reported and disclosures in these consolidated financial statements. Details of other new and revised IFRSs applied in these financial statements that have had no material impact on the financial statements are set out in further sections.

2.2.1 New and Revised IFRSs affecting presentation and disclosure only

– Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRS’s issued in 2010)

The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. In the current year, for each component of equity, the Group has chosen to present such an analysis in the notes to the consolidated financial statements, with a single-line presentation of other comprehensive income in the consolidated statement of changes in equity.

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2.2.2 New and Revised IFRSs affecting the reported financial performance and / or financial position

None.

2.2.3 New and Revised IFRSs applied with no material effect on the consolidated financial statements

The following new and revised IFRSs have also been adopted in these consolidated financial statements. The application of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Amendments to IFRS 3 Business Combinations

As part of Improvements to IFRSs issued in 2010, IFRS 3 was amended to clarify that the measurement choice regarding non-controlling interests at the date of acquisition is only available in respect of non-controlling interests that are present ownership interests and that entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. All other types of non-controlling interests are measured at their acquisition-date fair value, unless another measurement basis is required by other Standards. In addition, IFRS 3 was amended to provide more guidance regarding the accounting for share-based payment awards held by the acquiree's employees. Specifically, the amendments specify that share-based payment transactions of the acquiree that are not replaced should be measured in accordance with IFRS 2 Share-based Payment at the acquisition date ('market-based measure').

Such amendments to IFRS 3 have had no impact on profit or loss of the Group for the current and prior periods.

• *IAS 24 Related Party Disclosures (as revised in 2009)*

IAS 24 (as revised in 2009) has been revised on the following two aspects: (a) IAS 24 (as revised in 2009) has changed the definition of a related party and (b) IAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities.

• *Amendments to IAS 32 Classification of Rights Issues*

The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments. Before the amendments to IAS 32, rights, options or warrants to acquire a fixed number of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The amendments require retrospective application.

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- Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*

IFRIC 14 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions.

- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognized in profit or loss.

- *Improvements to IFRSs issued in 2010*

Except for the amendments to IAS 1 described earlier in section (a), the application of Improvements to IFRSs issued in 2010 has not had any material effect on amounts reported in the consolidated financial statements.

2.2.4 New and Revised IFRSs in issue but not yet effective

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRS 7	<i>Disclosures – Transfers of Financial Assets; Offsetting of Financial Assets and Financial Liabilities</i>
IFRS 9	<i>Financial Instruments</i>
IFRS 10	<i>Consolidated Financial Statements</i>
IFRS 11	<i>Joint Arrangements</i>
IFRS 12	<i>Disclosure of Interests in Other Entities</i>
IFRS 13	<i>Fair Value Measurement</i>
Amendments to IAS 1	<i>Presentation of Items of Other Comprehensive Income</i>
Amendments to IAS 12	<i>Deferred Taxes – Recovery of Underlying Assets</i>
IAS 19 (as revised in 2011)	<i>Employee Benefits</i>
IAS 27 (as revised in 2011)	<i>Separate Financial Statement</i>
IAS 28 (as revised in 2011)	<i>Investments in Associates and Joint Ventures</i>
IFRIC 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i>
Amendments to IAS 32	<i>Financial Instruments: Presentation - Offsetting of Financial Assets and Financial Liabilities</i>

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

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The Group management does not anticipate that these amendments to IFRS 7 will have a significant effect on the Group's disclosures. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

The amendments to IFRS 7 require an entity to disclose information about rights of offset and related agreements for financial instruments under an enforceable master netting agreement or similar arrangement. The new disclosures are required for annual or interim periods beginning on or after 1 January 2013.

IFRS 9 issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

- IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

IFRS 9 was amended to defer the mandatory effective date of both the 2009 and 2010 versions of IFRS 9 to annual periods beginning on or after 1 January 2015. Prior to the amendments, application of IFRS 9 was mandatory for annual periods beginning on or after 1 January 2013. The amendments continue to permit early application. The amendments modify the existing comparative transition disclosures in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and IFRS 7 Financial Instruments: Disclosures. Instead of requiring restatement of comparative financial statements, entities are either permitted or required to provide modified disclosures on transition from IAS 39 Financial Instruments: Recognition and Measurement to IFRS 9 depending on the entity's date of adoption and whether the entity chooses to restate prior periods.

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The Group management anticipates that IFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2015, which is the mandatory application date.

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Key requirements of these five Standards are described below.

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 Consolidation – Special Purpose Entities has been withdrawn upon the issuance of IFRS 10. Under IFRS 10, there is only one basis for consolidation, which is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11 replaces IAS 31 Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 Jointly Controlled Entities – Non-monetary Contributions by Venturers has been withdrawn upon the issuance of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The Group management anticipates that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013.

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

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IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Group management anticipates that IFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The amendments to IAS 12 are effective for annual periods beginning on or after 1 January 2012. The Group management anticipates that the application of the amendments to IAS 12 may not have impact on amounts reported in the consolidated financial statements as the Group does not have any investment properties.

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The Group management anticipates that the amendments to IAS 19 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013.

The amendments to IAS 32 are intended to clarify existing application issues relating to the offsetting rules and reduce the level of diversity in current practice. The amendments are effective for annual periods beginning on or after 1 January 2014.

2.3 Consolidation

2.3.1 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries (including special purpose entities), which are entities controlled by the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses and other comprehensive income of subsidiaries acquired or disposed of during the year are included in the consolidated income statement and in the consolidated statement of comprehensive income, respectively, from the effective date of acquisition and up to the effective date of disposal, as appropriate. Profit for the period and total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

2.3.2 Non-controlling interests

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

2.3.3 Changes in the Group's ownership interests in subsidiaries that do not result in loss of control

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Bank.

2.3.4 Loss of control

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Assets of the subsidiary carried at fair

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value with the related cumulative gain or loss recognized in other comprehensive income, the amounts previously recognized in other comprehensive income are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to the income statement or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

2.3.5 Associates

Associates are entities over which the Group has between 20% and 50% of the voting rights, and over which the Group exercises significant influence, but which it does not control. Investments in associates are accounted for by applying the equity method of accounting.

Under the equity method of accounting, the investment is initially recorded at cost. Goodwill arising on the acquisition of an associate is included in the carrying amount of the investment (net of any accumulated impairment loss). The carrying amount of the investment is increased or decreased by the proportionate share of the associate's post-acquisition profits or losses (recognized in the Group income statement) and movements in reserves (recognized in reserves). Dividends received from the associate during the year reduce the carrying value of the investment. Investments in associates for which significant influence is intended to be temporary because such investments are acquired and held exclusively with a view to their subsequent disposal within twelve months from their acquisition, are recorded as assets held for sale. Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate. Unrealized losses are also eliminated but considered as an impairment indicator of the asset transferred. Where necessary, the associate's financial statements used in applying the equity method are adjusted to ensure consistency with the accounting policies adopted by the Group.

2.4 Business combinations

2.4.1 Acquisition method

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. From 1 January 2010, acquisition-related costs are generally recognized in the income statement as incurred (for acquisitions before that date, acquisition related costs were considered part of the consideration paid).

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;

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- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and

share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

2.4.2 Goodwill

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in the income statement.

2.4.3 Contingent consideration

From 1 January 2010, when the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37, as appropriate, with the corresponding gain or loss being recognized in the income statement. For acquisitions before 1 January 2010, contingent consideration was recorded when its amount becomes probable and reliably measurable.

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2.4.4 Business combination achieved in stages

From 1 January 2010, when a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognized in the income statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to the income statement where such treatment would be appropriate if that interest were disposed of. For acquisitions before 1 January 2010, the cost of the combination is the aggregate cost of the individual transactions, with the cost of each individual transaction determined at the date of each exchange transaction.

2.5 Foreign currency translation

Items included in the financial statements of each entity of the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the functional currency"). The consolidated financial statements of the Group are presented in thousands of TL, which is the functional currency of the Bank.

Foreign currency transactions are translated into the functional currency at 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 of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Translation differences on debt securities and other monetary financial assets re-measured at fair value are included in net trading income and results from investment securities. Translation differences on non-monetary financial assets are a component of the change in their fair value and are recognized in the income statement for equity securities held for trading, or in other comprehensive income for equity securities classified as available for sale investment securities. Non-monetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction.

When preparing the financial statements, assets and liabilities of foreign entities are translated at the exchange rates prevailing at the reporting date, while income and expense items are translated at average rates for the period. Differences resulting from the use of closing and average exchange rates and from revaluing a foreign entity's opening net asset balance at closing rate are recognized directly in foreign currency translation reserve within other comprehensive income.

When a monetary item forms part of a reporting entity's net investment in a foreign operation and is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, the exchange differences that arise in the individual financial statements of both companies are reclassified to other comprehensive income upon consolidation. When a foreign entity is sold, such translation differences are recognized in the income statement as part of the gain or loss on sale.

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Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Foreign currency translation rates used by the Group as of December 31, 2011, 2010 and 2009 are as follows:

	<u>EUR / TL</u>	<u>USD / TL</u>
December 31, 2011	2.4592	1.9065
December 31, 2010	2.0491	1.5460
December 31, 2009	2.1603	1.5057

2.6 Regular way purchases and sales

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. All regular way purchases and sales of financial assets are recognized on the settlement date apart from trading and investment securities and derivative instruments, which are recognized on the trade date, which is the date that the Group commits to purchase or sell the asset.

2.7 Derivative financial instruments and hedge accounting

Derivative financial instruments including foreign exchange contracts, forward rate agreements, currency and interest rate swaps, interest rate futures, currency and interest rate options (both written and purchased), credit default swaps and other derivative financial instruments are initially recognized on the statement of financial position at fair value and subsequently are re-measured at their fair value. Derivatives are presented in assets when favorable to the Group and in liabilities when unfavorable to the Group. Where the Group enters into derivative instruments used for trading purposes, realized and unrealized gains and losses are recognized in the income statement.

A derivative may be embedded in another financial instrument, known as "host contract". In such cases, the derivative instrument is separated from the host contract and treated as a separate derivative, provided that its risks and economic characteristics are not closely related to those of the host contract, the embedded derivative actually meets the definition of a derivative and the host contract is not carried at fair value with unrealized gains and losses reported in the income statement.

Certain derivative instruments transacted as effective economic hedges under the Group's risk management positions, do not qualify for hedge accounting under the specific rules of IAS 39 and are therefore treated in the same way as derivative instruments held for trading purposes.

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The Group also uses derivative instruments as part of its asset and liability management activities to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions. The Group applies fair value or cash flow hedge accounting when transactions meet the specified criteria to obtain hedge accounting treatment. The Group's criteria for a derivative instrument to be accounted for as a hedge include:

- at inception of the hedge, there is formal designation and documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship;
- the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the hedging period. A hedge is considered to be highly effective when the Group achieves offsetting changes in fair value between 80 percent and 125 percent for the risk being hedged; and
- the hedge is highly effective on an ongoing basis;
- for cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss.

2.7.1 Fair value hedges

For qualifying fair value hedges, the change in fair value of the hedging derivative is recognized in the income statement along with the corresponding change in the fair value of the hedged item that is attributable to that specific hedged risk. If the hedge relationship no longer meets the criteria for hedge accounting, for reasons other than the de-recognition of the hedged item, or the hedging designation is revoked, the cumulative adjustment to the carrying amount of the hedged item, is, in the case of interest bearing financial instruments, amortized to the income statement over the remaining term of the original hedge item. If the hedged item has been derecognized, e.g. sold or repaid, the unamortized fair value adjustment is recognized immediately in the income statement.

2.7.2 Cash flow hedges

Fair value gains or losses associated with the effective portion of a derivative designated as a cash flow hedge are recognized initially in other comprehensive income. When the cash flows that the derivative is hedging (including cash flows from transactions that were only forecast when the derivative hedge was effected) materialize, resulting in income or expense, then the associated gain or loss on the hedging derivative is simultaneously transferred from other comprehensive income to corresponding income or expense line item.

If a cash flow hedge for a forecast transaction is deemed to be no longer effective, or the hedge relationship is terminated, the cumulative gain or loss on the hedging derivative previously reported in other comprehensive income is transferred to the income statement when the committed or forecast transaction occurs.

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2.7.3 Hedge effectiveness testing

To qualify for hedge accounting, the Group requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective test), and demonstrate actual effectiveness (retrospective test) on an ongoing basis.

The documentation of each hedging relationship sets out how effective the hedge is assessed. The method the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

Hedge ineffectiveness is recognized in the income statement.

2.8 Offsetting

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

2.9 Interest income and expenses

Interest income and expenses are recognized in the income statement for all interest bearing instruments using the effective interest rate method. Interest income includes interest on loans and advances to customers, finance lease receivables, factoring receivables and due from banks, coupons earned on investment and trading securities and accrued discount and premium on treasury bills and other instruments.

Fees and direct costs relating to a loan origination or acquiring a security, financing or restructuring and to loan commitments are deferred and amortized to interest income over the life of the instrument using the effective interest rate method.

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.

2.10 Fees and commissions

Fee and commission income is generally recognized on an accrual basis over the period the service is provided. Commission and fee arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts. The fee and commissions paid to other institutions are considered as transaction cost and included in the amortized cost by using internal rate of return method.

2.11 Financial assets and liabilities at fair value through profit or loss (“FVTPL”)

This category has the following two sub-categories:

- Trading and
- Financial assets and liabilities designated at fair value through profit or loss.

2.11.1 Trading

The trading category includes securities, which are either acquired for generating a profit from short-term fluctuations in price or dealer’s margin, or are included in a portfolio in which a pattern of short-term profit making exists, and derivatives unless they are designated as and are effective hedging instruments.

Trading securities may also include securities sold under sale and repurchase agreements (see Note 2.16 below).

2.11.2 Financial assets and liabilities designated at fair value through profit or loss

The Group designates at initial recognition certain financial assets or liabilities as at fair value through profit or loss when a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to key management personnel, for example the Board of Directors and Chief Executive Officer. The fair value designation, once made, is irrevocable.

2.11.3 Measurement

Financial assets and liabilities at fair value through profit or loss (both trading and designated) are initially recognized at fair value and subsequently re-measured at fair value.

Gains and losses realised on disposal or redemption and unrealised gains and losses from changes in the fair value are included in Net trading income and results from investment securities.

Dividend income is recognized in the income statement when the right to receive payment is established. This is the ex-dividend date for equity securities and is separately reported and included in dividend income.

The amount of change during the period, and cumulatively, in the fair values of designated loans and advances to customers that is attributable to changes in their credit risk is determined as the amount of change in the fair value that is not attributable to changes in market conditions that give rise to market risk.

2.12 Available for sale investments

Available for sale investments are initially recognized at fair value (including transaction costs) and subsequent to initial recognition are measured at fair value. Unquoted equity instruments whose fair value cannot be reliably estimated are carried at cost. Unrealised gains and losses arising from changes in the fair value of available for sale investment securities are reported in other comprehensive income, net of taxes (where applicable), until such investment is sold, collected or otherwise disposed of, or until such investment is determined to be impaired.

Available for sale investment securities may be sold in response to needs for liquidity or changes in interest rates, foreign exchange rates or equity prices. When an available for sale investment security is disposed of or impaired, the accumulated unrealised gain or loss included in other comprehensive income is transferred to the income statement for the period and reported as gains / losses from investment securities.

Impairment: The Group assesses at each reporting date whether there is objective evidence that an available for sale investment security or a group of such securities is impaired.

Particularly for equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired.

If any objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement) is removed from other comprehensive income and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

Interest earned while holding investment securities is reported as interest income.

Dividend income is recognized when the right to receive payment is established (the ex-dividend date) for equity securities and is separately reported and included in dividend income.

2.13 Loans and advances to customers

Loans and advances to customers include loans and advances originated by the Group, where money is provided directly to the borrower.

Loans originated by the Group are recognized when cash is advanced to borrowers. Loans and advances to customers are initially recorded at fair value, which is usually the net amount disbursed at inception including directly attributable origination costs and certain types of fees or commission (syndication commission, commitment fees and handling charges) that are regarded as an adjustment to the effective interest rate of the loan, and are subsequently measured at amortized cost using the effective interest rate method, unless they are designated as at "fair value through profit or loss" (see Note 2.11.2).

2.14 Impairment losses on loans and advances to customers

The Group assesses at each reporting date whether there is objective evidence that a loan, or a group of loans is impaired.

A loan (or group of loans) is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan ("loss event") and that loss event (or events) has an impact on the estimated future cash flows of the loan (or group of loans) that can be reliably estimated.

An allowance for impairment is established if there is objective evidence that the Group will be unable to collect all amounts due according to the original contractual terms.

Objective evidence that a loan (or group of loans) is impaired includes observable data that comes to the attention of the Group about the following loss events:

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

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The impairment loss is reported through the use of an allowance account on the statement of financial position. Additions to impairment losses are made through impairment losses on loans and advances to customers, finance lease receivables and factoring receivables in the income statement.

The Group assesses whether objective evidence of impairment exists individually for loans that are considered individually significant and individually or collectively for loans that are not considered individually significant.

If there is objective evidence that an impairment loss on loans and advances to customers carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the loans' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at a) the loan's original effective interest rate, if the loan bears a fixed interest rate, or b) current effective interest rate, if the loan bears a variable interest rate.

The calculation of the present value of the estimated future cash flows of a collateralized loan reflects the cash flows that may result from obtaining and selling the collateral, whether or not the foreclosure is probable.

For the purposes of a collective evaluation of impairment, loans are grouped on the basis of similar credit risk characteristics. Loans and advances to customers are grouped based on days in arrears or product type. Those characteristics are relevant to the estimation of future cash flows for pools of loans by being indicative of the debtors' ability to pay all amounts due and together with historical loss experience for loans with credit risk characteristics similar to those in the pool form the foundation of the loan loss allowance computation. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects and conditions in the historical period that do not currently exist.

The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of impairment loss is recognized in impairment losses on loans and advances to customers, finance lease receivables and factoring receivables in the income statement.

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

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2.15 Renegotiated loans

Once the terms of a loan have been renegotiated, after a review at a minimum six months, and the minimum amount of payments has been made and all other conditions required under the new arrangement have been fulfilled, the loan is no longer considered past due. The minimum amount of payments depends on the rating of the customer in a range between 15% and 50%. The Group continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

2.16 Sale and repurchase agreements

The Group enters into sales of securities under agreements to repurchase such securities. Such securities, which have been sold subject to repurchase agreements ('repos'), continue to be recognized on the statement of financial position and are measured in accordance with the accounting policy of the security portfolio which they are part of. The counterparty liability for amounts received under these agreements is included within securities sold under agreements to repurchase in due to other banks or customer deposits, as appropriate. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreements using effective interest method.

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

2.17 Securities borrowing and lending

Securities borrowed and securities lent are recorded at the amount of cash collateral advanced or received, plus accrued interest. Securities borrowed and securities received as collateral under securities lending transactions are not recognized in the financial statements unless control of the contractual rights that comprise these securities transferred is gained or sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability.

Respectively, securities lent and securities provided as collateral under securities borrowing transactions are not derecognized from the financial statements unless control of the contractual rights that comprise these securities transferred is relinquished.

The Group monitors the market value of the securities borrowed and lent on a regular basis and provides or requests additional collateral in accordance with the underlying agreements. Fees and interest received or paid are recorded as interest income or interest expense, on an accrual basis.

2.18 Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities,

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs and subsequently measured at amortized cost using the effective interest method, with interest expense recognized using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

2.19 Derecognition

2.19.1 Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass through’ arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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2.19.2 Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

2.20 Fair value of financial instruments

The Group measures the fair value of its financial instruments based on a framework for measuring fair value that categorizes financial instruments based on a three-level hierarchy of the inputs to the valuation technique, as discussed below.

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market.

Level 2: Observable inputs other than Level 1 quoted prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data (for example derived from prices) for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, as well as debt securities without quoted prices; loans and advances to customers which are classified at fair value through profit or loss and certain derivative contracts whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes government and corporate debt securities with prices in markets that are not active and certain OTC derivative contracts.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety.

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2.21 Property and equipment

Property and equipment include land and buildings, leasehold improvements and transportation and other equipment, held by the Group for use in the supply of services or for administrative purposes. Property and equipment are initially recorded at cost, which includes all costs that are required to bring an asset into operating condition. Subsequent to initial recognition, property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Costs incurred subsequent to the acquisition of an asset, which is classified as property and equipment are capitalised, only when it is probable that they will result in future economic benefits to the Group beyond those originally anticipated for the asset, otherwise they are expensed as incurred.

Depreciation of an item of property and equipment begins when it is available for use and ceases only when the asset is derecognized. Therefore, the depreciation of an item of property and equipment that is retired from active use does not cease unless it is fully depreciated, but its useful life is reassessed. Depreciation on property and equipment is calculated using the straight-line method over their estimated useful lives as follows:

Land	No depreciation
Buildings and land improvements	Up to 50 years
Furniture and fixtures	5-12 years
Machinery and equipment	4-5 years
Vehicles	4-7 years
Leasehold improvements	Over the term of respective leases

Expenses for repairs and maintenance are charged to expenses as incurred.

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end.

At each reporting date the Group assesses whether there is any indication that an item of property and equipment may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. Where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of property and equipment is the greater of the fair value less costs to sell and value in use. Impairment losses are recognized in the income statement.

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

Foreclosed assets, which consist mainly of properties acquired through foreclosure in full or partial satisfaction of a related loan, are initially measured at fair value less estimated costs to sell, which includes transaction costs, and reported under other assets. After initial recognition foreclosed assets are re-measured at the lower of their carrying amount and fair value less estimated costs to sell. Subsequent gains may be recognized up to the amount of previous write-downs. Any gains or losses on liquidation or re-measurement of foreclosed assets are included in other operating income/ (expenses).

2.22 Intangible assets

Intangible assets include goodwill, purchased software and internally generated software.

Goodwill

Subsequent to initial recognition, goodwill is stated at cost, as established at the date of acquisition (see 2.4.2) less accumulated impairment losses.

Goodwill is allocated to cash-generating units ("CGUs") for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

The Group assesses goodwill for possible impairment annually or more frequently if there are indications for impairment. The assessment involves estimating whether the carrying amount of the goodwill remains fully recoverable. When making this assessment the Group compares the carrying value of the CGU to which the goodwill is allocated to its recoverable amount, which is the higher of fair value less cost to sell and value in use. Fair value is estimated by reference to market value, if available, or is determined by a qualified evaluator or pricing model. Determination of a fair value and value in use requires management to make assumptions and use estimates. If the recoverable amount is less than the carrying amount, an irreversible impairment loss is recognized, and the goodwill is written down by the excess of the carrying amount of the unit over its recoverable amount.

Internally generated software

The amount initially recognized for internally generated software is the total expenditure incurred from the date when the internally generated software first meets the recognition criteria. Where no internally generated software can be recognized, development expenditure is charged to the income statement in the period in which it is incurred.

Research costs are expensed as incurred. An internally generated software arising from development expenditure incurred on an individual project is recognized only when the Group can demonstrate:

- the technical feasibility of completing the internally generated software so that it will be available for use,
- its intention to complete and use the asset,
- the ability to use the asset,
- how the asset will generate future economic benefits,
- the ability of adequate technical, financial and other resources to complete the development and use the asset and
- the ability to measure reliably the expenditure during development.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortization and impairment losses.

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Purchased software

Software includes costs that are directly associated with identifiable and unique software products controlled by the Group that are anticipated to generate future economic benefits exceeding costs beyond one year. Expenditure, which enhances or extends the performance of computer software programs beyond their original specifications is recognized as a capital improvement and added to the original cost of software. Following initial recognition intangible assets are carried at cost less any accumulated amortization and any impairment losses.

Measurement

Software costs recognized as assets are amortized using the straight-line method over their useful lives, not exceeding a period of 12 years.

The carrying value of intangible assets is reviewed for impairment annually or more frequently when an indication of impairment arises during the reporting year.

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

2.23 Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset.

2.23.1 The Group as a lessee

Finance leases: Leases where the Group has substantially all the risks and rewards of ownership of the asset are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The outstanding rental obligations, net of finance charges, are included in other liabilities. The interest element of the finance cost is charged to the income statement over the lease period. All assets acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Operating leases: Leases where a significant portion of the risks and rewards of ownership of the asset are retained by the lessor, are classified as operating leases. These include rent agreements of branch premises, which are cancelable subject to a period of notice. The total payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

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2.23.2 The Group as a lessor

Finance leases: When assets are leased out under a finance lease, the present value of the minimum lease payments is recognized as a receivable. Lease income is recognized over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return. Finance leases are presented in finance lease receivables.

Impairment losses on finance lease receivables

The Group assesses at each reporting date whether there is objective evidence that a finance lease receivable is impaired in a similar way to the loans and advances to customers as described in 2.14. Any impairment loss is recognized also in a similar way to the loans and advances to customers as described in 2.14.

Operating leases: Assets leased out under operating leases are included in the statement of financial position based on the nature of the asset. They are depreciated over their useful lives on a basis consistent with similar owned property. Rental income (net of any incentives given to lessees) is recognized on a straight-line basis over the lease term.

2.24 Factoring receivables

Factoring receivables are calculated on the basis of their historical cost and are amortized with effective interest rate after unearned interest income is charged and specific provisions for impairments are provided, if any. Factoring receivables are revised regularly for any impairment. Specific provision for the impairment of factoring receivables is provided over the carrying amount of factoring receivables for the purpose of adjusting their values to the collectable amount.

2.25 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand, unrestricted balances held with central banks, amounts due from other banks and highly liquid financial assets with original maturities of less than three months from the date of acquisition such as treasury bills and other eligible bills, investment and trading securities which are subject to insignificant risk of changes to fair value and are used by the Group in the management of its short-term commitments.

2.26 Provisions

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 embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement recognized.

2.27 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract, other than those assessed as insurance contracts, is recognized initially at their fair value and subsequently measured at the higher of: (a) the unamortized balance of the related fees received and deferred, and (b) the best estimate of the amount required to settle the guarantee at the reporting date.

2.28 Employee benefits

The Group has only defined benefit plans as described below:

A defined benefit plan is a post-employment benefit plan that defines an amount of benefit to be provided, usually as a function of one or more factors such as age, years of service or compensation. For defined benefit plans, the liability is the present value of the defined benefit obligation as at the reporting date minus the fair value of the plan assets, including any adjustments for unrecognized actuarial gains/losses and past service cost.

The Group follows the “corridor” approach of IAS 19 “Employee Benefits” according to which a certain amount of actuarial gains and losses remains unrecognized and is amortized over the average remaining service lives of the employees participating in the plan. The defined benefit obligation and the related costs are calculated by independent actuaries on an annual basis using the projected unit credit method. The present value of the defined obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds or government bonds that are denominated in the currency in which the benefits will be paid and, which have terms to maturity approximating the terms of the related liability, or estimates of rates which take into account the risk and maturity of the related liabilities where a deep market in such bonds does not exist. Defined benefit plan costs, as estimated, are charged to the income statement and are included in staff costs.

In accordance with existing Turkish Labor Law, the Group is required to make lump-sum severance indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct.

2.29 Income taxes

Tax charge (benefit) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred taxes.

a. Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

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b. Deferred tax

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

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

The principal temporary differences arise from revaluation of certain financial instruments, including securities and derivatives, insurance reserves and provisions for pensions and other post retirement benefits.

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

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

Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax relating to items which are recognized in other comprehensive income is also recognized in other comprehensive income. Such deferred tax is subsequently recognized in the 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 deferred taxes relate to the same taxable entity and the same taxation authority.

2.30 Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is classified as held for sale or is a subsidiary acquired exclusively with a view to resale. Classification as discontinued operations occurs upon disposal or when the operations meet the criteria to be classified as held for sale.

The results of discontinued operations are shown as a single amount on the face of the income statement comprising the post-tax profit or loss of discontinued operations and the post-tax gain or loss recognized either on measurement to fair value less costs to sell or on the disposal of the discontinued operation.

2.31 Interest bearing deposits and borrowings

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

2.32 Insurance operations

The insurance operations of the Group involve life insurance products. Life insurance products insure, in their majority, events which are expected to occur in the long term. The associated premiums are recognized on issuance or renewal of the contracts.

- (a) Deferred acquisition costs (DAC):** Commissions and other acquisition costs incurred during the financial period for issuing new contracts and or renewing existing contracts, which are related to subsequent financial periods are deferred and recognized over the period in which the revenue is recognized.
- (b) Insurance liabilities:** Insurance reserves reflect current estimates of future cash flows arising from insurance contracts. The calculation of the insurance reserves is performed at each reporting date. They consist of:
 - i. **Mathematical reserves:** The life insurance reserve represents the present value of future liabilities less the present value of premiums to be received and is calculated on the basis of a prudent prospective actuarial method, by taking into account the terms of current insurance policies.
 - ii. **Outstanding claims reserve:** The reserve includes incurred claims not yet paid, both reported and not reported (IBNR) and represents the expected value of ultimate claims payable. The outstanding claims reserve is calculated on a case-by-case basis and the IBNR is calculated based on past experience. The reserve includes all costs of processing claims.

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- iii. **Liability Adequacy Test (LAT):** The Group assesses whether its recognized insurance liabilities are adequate by applying a liability adequacy test ("LAT"), by using current estimations of future cash flows. Additional liability resulting from the LAT increases the carrying amount of insurance liabilities as determined in accordance with the above mentioned policies and is charged to the income statement.
- (c) **Reinsurance:** The Group has reinsurance treaties that transfer significant insurance risk. Liabilities for reinsured contracts are calculated gross of reinsurance and a separate reinsurance asset is recorded.

2.33 Dividends

Dividends on ordinary shares are recognized as a liability in the period in which they are approved by the Annual General Meeting of the Shareholders of the Bank and its subsidiaries.

2.34 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Group has determined the Board of Directors as its chief operating decision makers.

All transactions between business segments are conducted on an arm's length basis, with inter-segment revenue and costs being eliminated. Income and expenses directly associated with each segment are included in determining business segment performance.

2.35 Related party transactions

Related parties include entities, which the Group has the ability to exercise significant influence in making financial and operating decisions. Related parties include, directors, shareholders, their close relatives, companies owned or controlled by them and companies over which they can influence the financial and operating policies. All banking transactions entered into with related parties are made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties and do not involve more than a normal amount of risk.

2.36 Fiduciary and trust activities

The Group provides fiduciary and trust services to individuals and other institutions, whereby it holds and manages assets or invests funds received in various financial instruments at the direction of the customer. The Group receives fee income for providing these services. Trust assets held by the Group in a fiduciary, agency or custodian capacity for its customers are not recognized in the financial statements, since such items are not as assets of the Group. The Group is not exposed to any credit risk relating to such placements, as it does not guarantee these investments.

2.37 Earnings per share

The basic earnings per share (EPS) ratio is calculated by dividing the net profit or loss for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

The diluted earnings per share ratio is computed using the same method as for basic EPS, but the determinants are adjusted to reflect the potential dilution that could occur if convertible debt securities, options, warrants or other contracts to issue ordinary shares were converted or exercised into ordinary shares.

3 Critical judgments and estimates

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in the consolidated financial statements. The Group believes that the judgments, estimates and assumptions used in the preparation of the financial statements are appropriate given the factual circumstances as of December 31, 2011.

The most significant areas, for which judgments, estimates and assumptions are required in applying the Group's accounting policies, are the following:

Allowances for loan, lease and factoring losses

The amount of the allowance for impairment of loans and advances to customers, finance lease receivables and factoring receivables is based upon management's ongoing assessments of the probable estimated losses inherent in the loan and lease portfolios. Assessments are conducted by members of management responsible for various types of loans and leases employing a methodology and guidelines, which are continually monitored and improved.

This methodology has two primary components: individual and collective impairment assessments, as described in Note 2.14.

Applying this methodology requires management to make estimates regarding the amount and timing of the cash flows, which are expected to be received. In estimating these cash flows, management makes judgments about the counterparty's financial situation and the net realizable value of any underlying collateral or guarantees in favor of the Group. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently reviewed.

In assessing the need for collective loan and lease loss allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, assumptions are made both to define the way inherent losses are modeled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances and provisions depends on the model assumptions and parameters used in determining collective allowances. While this necessarily involves judgment, management believes that the allowances and provisions are reasonable and supportable.

4 Financial risk management

4.1 Risk management governance

The Group's Risk Management Department is responsible for monitoring and managing all potential risks for the Group in a centralized and efficiently coordinated manner. The primary goal of the Group's Risk Management Department is to provide business lines with appropriate capital allocation (economic capital) for risks they are exposed to.

The Group aims to adopt practices regarding risk management governance, taking into account all relevant guidelines and regulatory requirements, as set by the Basel Committee, the Banking Regulation and Supervision Agency ("BRSA") and the Capital Markets Board ("CMB"), as well as any decisions of the competent authorities supervising the Group entities.

Risk management governance at the Group starts with the Board of Directors. The Board Risk Committee ("BRC"), Asset Liability Committee ("ALCO"), Corporate and Retail Credit Policy Committee ("CPC"), Operational Risk Committee ("ORC") and the Risk Management Department are the important bodies of the risk management structure. The Board of Directors determines the general risk policy and the risk appetite of the Bank. The BRC defines risk policies and strategies, reviews the types of risks the Bank is exposed to in its monthly meetings, monitors the implementation of the risk management strategies and brings the important risk issues to the attention of the Board. The ALCO, meeting bi-weekly, is responsible for monitoring and managing the structural asset liability mismatches of the Bank, as well as monitoring and controlling liquidity risk and foreign currency exchange risk. The CPC meets monthly and is responsible for monitoring and evaluating the Bank's lending portfolio and determining principles and policies regarding the credit risk management processes such as loan approval, limit setting, rating, monitoring and problem management. The ORC meets every three months and is responsible for reviewing operational risk issues of the Bank and defining the necessary actions to be taken to minimize these risks. The Risk Management Department, working independently from the executive functions and reporting to the Board of Directors, is organized under four groups as market risk, credit risk, operational risk and model validation, each having responsibility for identifying, measuring, monitoring, controlling and managing the relevant risks as well as for model validation, assessing the predictive ability of risk estimates and the use of ratings in credit processes.

The Internal Audit Division, which reports directly to the Board of Directors through the Audit Committee, complements the risk management framework and acts as an independent reviewer, focusing on the effectiveness of the risk management framework and control environment.

4.1.1 Board Risk Committee

The Group's risk management policies are approved by the BRC, the members of which are the Chairman of the Board of Directors, and three members of the Board of Directors. According to its internal regulation, the BRC is responsible for all strategic risk management decisions including, for example, the approval and review of risk strategy, policies and capital adequacy and allocation as well as oversight of the CPC and the ORC.

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4.1.2 Group Risk Management Department

The department seeks to protect the Group against unforeseen losses and to maintain earnings stability through the independent identification and assessment of risks. It uses a framework for evaluating risks as the basis for organizing the Group structure. Its role in maximizing the Bank's earnings potential involves measuring performance on a risk-adjusted basis and allocating capital accordingly. In addition, it is responsible for providing the BRC and the Executive Committee with data and analysis required for measuring, monitoring and managing risks and for supporting the implementation of risk management decisions. Group risk management policies are approved by the BRC.

The department undertakes to do the following:

- Analyze, measure, monitor, control, mitigate and report to management all significant on- and off-balance sheet risks undertaken at the Bank and the Group level;
- Adopt risk management policies with regard to significant credit, market, operational and other risks undertaken by the Bank and the Group;
- Evaluate the internal capital that is required in respect of all aforementioned risks and estimate all relevant capital ratios of the Bank and the Group;
- Establish a framework for undertaking risk applicable to all levels of management and collective bodies of the Bank and the Group;
- Establish early warning systems and perform stress tests on a regular basis; and
- Guide decision making processes at the Group level by providing the necessary risk management related evaluation.

4.1.3 Asset and liability management

The ALCO propose asset and liability management procedures and policies to the Board of Directors. The ALCO is responsible for executing these policies and managing structural interest rate risk within the limits defined by the Board of Directors. The ALCO meets twice a month. At these meetings, the ALCO reviews the critical issues and determines the strategies for asset and liability management.

4.1.4 Internal Audit Division

Internal Audit Division ("IAD") in the Group has objective of conducting assurance and consulting activities designed to add value and improve operations.

4.1.5 Management of specific risks

Finansbank's risk management processes distinguish among the types of risks set out below.

4.2 Credit risk

Credit risk represents the risk arising from the counterparty not fulfilling its responsibilities stated in the agreement either partially or totally. The Credit Risk Committees and Credit Divisions are responsible for managing credit risk of the Group.

The total limit amount which is imposed on debtors individually or as a group is determined according to the size of the exposure and the assessment of different allocation parties in Finansbank. Beside total limit, product base limits are also exist.

The creditworthiness of the Group's debtors is continuously monitored as long as the credit relation exists. Updated financial statements and intelligence is periodically collected by credit departments. The limits of the loan customers are revised periodically and the Group analyses the creditworthiness of the customers and requires collaterals within the framework of its credit policies.

The Group establishes limits over the positions of forward transactions, options and other similar agreements. The credit risk arising from these instruments is managed together with the risks resulting from market fluctuations. The Group monitors regularly risks of forward transactions, options and other similar agreements and reduces the risk if necessary by obtaining margin deposits or entering into netting agreements.

The restructured and rescheduled loans are monitored by the Bank according to its Credit Risk Policy. According to the Credit Risk Policy, the Bank could restructure or reschedule a loan in order to strengthen the liquidity of the loan customer and to increase the collectability of the loan. After evaluation of the loan, the loan is either restructured by issuing additional loan to the customer or rescheduled by modifying the payment amount or the schedule. The customer's financial position and commercial activities are continuously analyzed and the principal and interest payments of rescheduled loans are monitored by the credit department.

Grades for companies having restructured and rescheduled loans are updated based on the analysis and credit performance of the company.

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4.2.1 Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk for the components of the financial statements;

Gross maximum exposure	December 31, 2011	December 31, 2010	December 31, 2009
T.R. Central Bank	2,446,015	1,968,847	1,494,359
Due from banks	2,095,889	1,020,904	1,418,769
Financial assets at FVTPL	102,670	207,583	229,375
Derivative financial assets	2,015,597	421,018	425,288
Available for sale investments	6,833,524	7,230,439	5,334,952
Loans and advances to customers	30,960,428	26,152,685	19,636,587
Factoring receivables	255,831	221,065	37,046
Finance lease receivables	1,000,203	918,424	959,048
Other assets	150,738	179,331	170,981
Total	45,860,895	38,320,296	29,706,405
Contingent liabilities	6,985,658	6,035,682	5,217,941
Commitments	20,761,872	14,347,947	10,295,056
Total	27,747,530	20,383,629	15,512,997
Total credit risk exposure	73,608,425	58,703,925	45,219,402

4.2.2 Credit rating system

Finansbank aims to manage its loan portfolio based on international best practices. In this respect, the Bank has formed internal scoring and rating systems, based on statistical methods to monitor the credibility of its clients. These systems classify the customers according to their default risk from highest to lowest score or rating. Internal scoring systems are used to improve the efficiency of the loan granting process, to monitor loan portfolio quality effectively and to assist in the determination of the actions required. The Bank uses rating and scoring systems for corporate customers, application scoring systems for consumer loans in order to assess the creditworthiness of a customer applying for a loan, and behavioral scoring systems for existing customers in order to calculate the default probability in a certain period of time. These systems are revised periodically based on international best practices and methodologies and calibrated if necessary.

The table below indicates the level of ratings for the corporate / commercial and enterprise banking loans and advances to customers:

	2011 (%)	2010 (%)	2009 (%)
Debtor has a strong financial structure	6	7	3
Debtor has a good financial structure	58	59	53
Debtor has a medium financial structure	23	21	32
Debtor has a financial structure which needs attention in medium term	9	9	6
Not graded	4	4	6
Total	100	100	100

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The most common practice used by the Group to mitigate credit risk is the taking of security for funds advances. The Group implements guidelines on the acceptability of specific classes of collateral. The principal collateral types for loans and advances to customers are:

- Mortgages over residential and commercial properties;
- Charges over business assets such as premises, ships, vehicles, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities;
- Cash collaterals;
- Bank or personal guarantees.

Revolving credit facilities to individuals and debt securities, treasury and other eligible bills are generally unsecured.

4.2.3 Loans and advances to customers and finance lease receivables renegotiated

The carrying amount of loans whose terms have been renegotiated that would otherwise be past due or impaired was TL 174,094, TL 145,913 and TL 101,901 as of December 31, 2011, 2010 and 2009, respectively. The carrying amount of finance lease receivables whose terms have been renegotiated that would otherwise be past due or impaired was TL 17,344, TL 27,242 and TL 61,087 as of December 31, 2011, 2010 and 2009, respectively.

4.2.4 Credit risk by industry sector

An industry sector analysis of the Group's loans and advances to customers are as follows;

Industry sector	December 31, 2011	December 31, 2010	December 31, 2009
Private individuals	19,309,075	16,388,044	12,287,281
Trade and services (excl. tourism)	3,290,079	2,523,482	1,899,543
Industry & mining	2,995,044	2,352,147	1,752,789
Small scale industry	1,508,878	1,273,414	942,444
Transportation and telecommunications	775,579	678,931	696,449
Construction and real estate development	736,122	532,768	558,295
Energy	346,638	153,519	73,910
Factoring	341,879	425,058	153,751
Tourism	230,490	375,157	325,339
Leasing	49,742	42,660	12,041
Shipping	293	3,591	771
Other	1,376,609	1,403,914	933,974
Total	30,960,428	26,152,685	19,636,587

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An industry sector analysis of the Group's finance lease receivables are as follows;

Industry sector	December 31, 2011	December 31, 2010	December 31, 2009
Small scale industry	682,031	641,052	688,106
Industry and mining	190,796	161,736	118,822
Construction and real estate development	42,765	33,784	29,002
Transportation and telecommunications	13,000	6,557	11,843
Trade and services (excl. tourism)	5,140	5,234	8,053
Tourism	132	940	2,117
Other	66,339	69,121	101,105
Total	1,000,203	918,424	959,048

An industry sector analysis of the Group's factoring receivables are as follows;

Industry sector	December 31, 2011	December 31, 2010	December 31, 2009
Industry and mining	73,393	76,891	10,793
Construction and real estate development	52,121	52,241	8,403
Trade and services (excl. tourism)	20,505	2,639	-
Tourism	19,467	36,725	4,900
Transportation and telecommunications	16,654	6,118	1,376
Shipping	3,404	3,591	1,581
Other	70,287	42,860	9,993
Total	255,831	221,065	37,046

4.2.5 Counterparty risk

The Group faces counterparty risk from the over-the-counter transactions and the repurchase agreements in which it is involved. Counterparty risk is the risk arising from an obligor's failure to meet its contractual obligations. For the efficient management of counterparty risk, the Bank has established a framework of counterparty limits. The financial institution department is responsible for setting and monitoring the limits.

Counterparty limits are set based on the credit ratings of the financial institutions. The credit ratings are provided by internationally recognized ratings agencies, in particular by Moody's and Standard & Poor's. According to the Bank's policy, if agencies disagree on the creditworthiness of a financial institution, only the lowest rating will be taken into consideration. In cases where a financial institution is not rated by the above agencies, its rating is given by the Bank's internal rating model.

The counterparty limits apply to all financial instruments which the Treasury department actively trades in the interbank market. The limits framework is revised according to the business needs of the Bank and prevailing conditions in international financial markets. A similar limit structure for the management of counterparty risk is enforced across all of the Group's subsidiaries.

The Group seeks to reduce counterparty risk by standardizing relationships with counterparties through International Swaps and Derivatives Association ("ISDA"), Global Master Repurchase Agreement ("GMRA") and Global Master Securities Lending Agreement ("GMSLA") contracts that respectively include all necessary closeout netting clauses and margining agreements. Additionally, for the most active counterparties in over-the-counter derivatives, credit support annexes have been put in effect so that on the basis of daily valuations, net current exposures are managed through margin accounts where cash collaterals can be reciprocally posted.

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The Bank avoids taking positions in derivative contracts where the values of the underlying assets are highly correlated with the credit quality of the counterparty.

To calculate capital requirements, Finansbank measures the exposure amount by applying a methodology that includes:

- data gathering via risk management systems;
- performance of quantitative and qualitative checks; and
- application of the fair value methodology according to the BRSA.

4.3 Market risk

Market risk arises from the uncertainty concerning changes in market prices and rates (including interest rates, equity and bond prices and foreign exchange rates) and their levels of volatility. In recent years, the Group has expanded its trading activities to include a wide variety of financial products in order to enhance its profitability and its service to customers. These trading activities require Finansbank to assume market risk, which the Group seeks to identify, estimate, monitor and manage effectively through a framework of principles, measurement processes and a valid set of limits that apply to all of the Group's transactions. The capital required for General Market Risk and Specific Risk is calculated and reported monthly in accordance with the Standard Method defined in the "Regulation on Measurement and Assessment of Capital Adequacy of Banks" issued by the BRSA. The most significant types of market risk for the Group are interest rate risk, equity risk and foreign exchange risk.

Interest rate risk is the risk related to the potential loss on the Group's portfolio due to adverse movements in the interest rates. A principal source of interest rate risk exposure arises from the Group's trading and available-for-sale bond portfolios, and its interest rate exchange traded and OTC transactions.

The Group has to manage the interest rate risk that derives from the positions it retains in Turkish government bonds, denominated mostly in TL. In addition, the Group enters into swap transactions either for hedging purposes, or for proprietary reasons. As a means of hedging, the Group enters into swap transactions in order to hedge the interest rate risk of its Eurobond portfolio, which consists of Turkish government bonds denominated in foreign currency.

The Group also obtains liquidity in US dollars and Euro which are then converted into TL through cross currency interest rate swaps in order to offer loans to its customers. Furthermore, these cross currency interest rate swaps act as a hedge to the interest rate risk that derives from the Group's loan portfolio.

Equity risk is the risk related to the potential loss that might occur due to adverse movements in the prices of stocks and equity indices. The Group holds a limited portfolio of stocks, the majority of which are traded on the Istanbul Stock Exchange, and also retains positions in stock and equity index derivatives traded in the Turkish and international exchanges.

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Foreign exchange risk is the risk related to the potential loss due to adverse movements in foreign exchange rates. The foreign exchange risk derives from the Group's Open Currency Position ("OCP").

The Group trades in all major currencies holding mainly short-term positions for trading purposes and for servicing its institutional, corporate, domestic and international clients. According to the Bank's strategy, the end of day OCP should comply with the regulatory limits.

4.3.1 Market risk on trading and available-for-sale portfolio

The Bank estimates the market risk of its trading and available-for-sale ("AFS") portfolios by applying a Value-at-Risk ("VaR") methodology. In particular, the Bank has adopted a historical simulation methodology with a 99% confidence interval and a one day holding period. The system used is Risk Watch. VaR is calculated with 'Historical Simulation' method. An overall "Bank Risk Tolerance" and VaR limits for each risk factor are determined in order to manage the market risk efficiently and to keep the market risk within the desired limits. The Group Risk Management Department monitors VaR balances daily for compliance with the limits. Periodic stress tests and scenario analyses are used to support the results of VaR.

The VaR limits have been determined by reference to worldwide best practices; they refer not only to specific types of market risk, such as interest rate, foreign exchange and equity risk, but also to the overall market risk of the Bank's trading and AFS portfolios.

The tables below present the Bank's VaR for 2011, 2010 and 2009;

2011	Total VaR	Interest Rate VaR	Foreign Exchange Risk VaR	Equity VaR
As of December 31	42,653	42,706	2,111	270
Average	36,915	36,501	1,764	603
Minimum	22,566	22,825	155	176
Maximum	59,254	58,082	5,243	1,679

2010	Total VaR	Interest Rate VaR	Foreign Exchange Risk VaR	Equity VaR
As of December 31	25,065	25,581	1,015	513
Average	16,937	16,602	2,471	182
Minimum	5,778	5,943	212	-
Maximum	28,031	29,052	9,557	672

2009	Total VaR	Interest Rate VaR	Foreign Exchange Risk VaR	Equity VaR
As of December 31	7,964	7,599	2,569	91
Average	13,974	13,281	1,762	242
Minimum	4,970	4,308	81	8
Maximum	46,501	47,708	7,551	1,843

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In addition, the Bank performs back testing in order to verify the predictive power of its VaR model. The calculations involve the comparison of “hypothetical” daily gains and losses with the respective estimates of the VaR model used for regulatory purposes.

Stress test analysis is also performed by Finansbank on its trading and available for sale portfolios on a monthly basis. The scenarios refer to extreme movements of interest rates and foreign exchange prices and are based on the latest financial crises which have taken place in Turkey.

4.3.2 Limitations of our VaR model

The VaR model is based on certain theoretical assumptions, which under extreme market conditions might not capture the maximum loss the Bank will suffer. The restrictions of our methodology are summarized as follows:

- The use of historical data series as predictive measures for the behaviour of risk factors in the future might prove insufficient in periods of intense volatility in financial markets.
- The one-day holding period for VaR calculations (or ten days for regulatory purposes) implies that the Bank will be able to liquidate all its trading assets within this length of time. This assumption might underestimate market risk in periods of insufficient liquidity in financial markets or in cases where certain assets in the Bank’s portfolio cannot be easily liquidated.
- VaR refers to the plausible loss on the Bank’s portfolio for a 99% confidence interval, not taking into account any losses beyond that level.
- All calculations are based on the Bank’s positions at the end of each business day, ignoring the intra-day exposures and any realized losses that might have been incurred.
- VaR estimates rely on small changes in the prices of risk factors. For bigger movements, the methodology would not fully capture the effect on the value of the portfolio.

4.3.3 Interest rate risk in the banking book and interest rate sensitivity

Interest rate risk in the banking book is the current or prospective risk to earnings (net interest income) and capital due to adverse movements in interest rates affecting the banking book positions. Exposure to interest rate risk in the banking book arises from re-pricing mismatches between assets and liabilities. The Group’s banking book consists mainly of loans and advances to customers, leasing and factoring receivables, cash and balances with central banks, amounts due from banks, customer deposits, amounts due to banks, debt securities issued and funds borrowed that are measured at amortized cost. The Group believes that it maintains adequate measurement, monitoring, and control functions for interest rate risk in the banking book, including:

- measurement systems for interest rate risk that capture all material sources of interest rate risk and that assess the effect of interest rate changes in ways that are consistent with the scope of the Group’s activities;
- measurement of vulnerability to loss under stressful market conditions;

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- processes and information systems for measuring, monitoring, controlling, and reporting interest rate risk exposures in the banking book; and
- a documented policy regarding the management of interest rate risk in the banking book.

Interest rate risk that would arise from the changes in interest rates depending on the Group's position is managed by the Asset and Liability Committee ("ALCO") of the Bank.

Interest rate sensitivity of assets, liabilities and off balance sheet items is analyzed by top management in the Asset and Liability Committee meetings held every two weeks by taking the market developments into consideration.

The Management of the Group follows the interest rates in the market on a daily basis and revises interest rates of the Group when necessary.

The assets and liabilities of the Bank, carrying a positive interest yield, are re-priced within an average period of six months, after excluding the fixed rate assets and liabilities.

In addition to customer deposits, the Bank funds its long term fixed interest rate TL installment loan portfolio with long term (up to 10 years) floating interest rate foreign currency funds obtained from international markets. The Bank swaps the foreign currency liquidity obtained from the international markets to TL liquidity with long term swap transactions (fixed TL interest rate and floating foreign currency interest rate).

Even though the Bank is exposed to structural interest rate risk on its statement of financial position due to the nature of its existing activities, the Bank's policy aim to ensure that this risk stays within the pre-defined limits. The ALCO aims to protect the economic value of equity, while sustaining a stable earnings profile. Duration/GAP analyses, which rely on calculations of net discounted future cash flows of interest rate sensitive balance sheet items, are conducted to manage this risk.

The Bank runs net economic value sensitivity scenarios with changes in interest rates and interest rate margins, so as to calculate their impact on net economic value. Beside the standard interest rate shock scenario, 2001 crisis, May 2004 and June 2006 scenarios are also simulated.

As of the reporting date, 1% increase in interest rates, would result in a decrease the Group's profit for the year of TL 19,491 (2010: TL 85,763, 2009: TL 63,462), and a 1% decrease in interest rates would result in an increase in the Group's profit for the year of TL 23,603 (2010: TL 93,983, 2009: TL 62,731), when all the other variables are assumed to be constant.

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The following table indicates the periods in which financial assets and liabilities re-price as of December 31, 2011:

December 31, 2011

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 yrs	Over 5 years	Non- interest bearing	Total
ASSETS							
Cash and balances with T.R. Central Bank	-	-	-	-	-	2,964,593	2,964,593
Due from banks	1,804,082	75,300	10,427	-	-	206,080	2,095,889
Financial assets at FVTPL	16,409	6,425	528	56,446	7,355	15,507	102,670
Derivative financial assets	59,444	142,669	596,807	863,365	84,105	269,207	2,015,597
Loans and advances to customers	9,335,463	3,588,097	8,219,408	7,771,633	2,045,827	-	30,960,428
Factoring receivables	52,871	105,944	89,797	-	-	7,219	255,831
Finance lease receivables	135,861	65,961	277,219	502,535	7,938	10,689	1,000,203
Available for sale investments	1,221,850	1,396,717	1,275,165	1,915,761	897,305	126,726	6,833,524
Other assets	-	-	-	-	-	150,738	150,738
Total assets	12,625,980	5,381,113	10,469,351	11,109,740	3,042,530	3,750,759	46,379,473
LIABILITIES							
Due to other banks	2,242,708	55,533	26,613	-	-	36,748	2,361,602
Customer deposits	15,049,537	10,020,740	974,628	28,397	-	2,660,018	28,733,320
Derivative financial liabilities	359,997	473,605	149,647	16,703	-	272,338	1,272,290
Debt securities issued	-	51,873	268,023	1,123,592	-	-	1,443,488
Funds borrowed	941,551	380,049	3,596,168	202,834	11,624	-	5,132,226
Other liabilities	-	-	-	-	-	1,330,690	1,330,690
Total liabilities	18,593,793	10,981,800	5,015,079	1,371,526	11,624	4,299,794	40,273,616
Total interest sensitivity gap	(5,967,813)	(5,600,687)	5,454,272	9,738,214	3,030,906	(549,035)	6,105,857

The following table indicates the periods in which financial assets and liabilities re-price as of December 31, 2010:

December 31, 2010

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 yrs	Over 5 years	Non- interest bearing	Total
ASSETS							
Cash and balances with T.R. Central Bank	-	-	-	-	-	2,394,476	2,394,476
Due from banks	509,519	303,244	4,322	-	-	203,819	1,020,904
Financial assets at FVTPL	94,319	16,187	30,338	40,778	8,544	17,417	207,583
Derivative financial assets	53,045	129,624	26,104	33,466	3,473	175,306	421,018
Loans and advances to customers	7,225,841	2,827,561	7,106,475	7,035,386	1,957,422	-	26,152,685
Factoring receivables	-	112,737	99,054	9,274	-	-	221,065
Finance lease receivables	146,994	55,603	231,376	379,439	8,891	96,121	918,424
Available for sale investments	1,053,420	414,493	2,123,015	2,472,176	1,040,739	126,596	7,230,439
Other assets	-	-	-	-	-	179,331	179,331
Total assets	9,083,138	3,859,449	9,620,684	9,970,519	3,019,069	3,193,066	38,745,925
LIABILITIES							
Due to other banks	1,924,604	89,021	2,247	-	-	21,707	2,037,579
Customer deposits	14,766,506	5,816,977	371,419	27,177	-	2,194,438	23,176,517
Derivative financial liabilities	19,178	49,921	173,267	348,919	49,386	161,644	802,315
Debt securities issued	-	309,956	-	107,384	-	-	417,340
Funds borrowed	1,169,219	1,960,460	1,954,093	80,382	73,285	-	5,237,439
Other liabilities	-	-	-	-	-	1,174,516	1,174,516
Total liabilities	17,879,507	8,226,335	2,501,026	563,862	122,671	3,552,305	32,845,706
Total interest sensitivity gap	(8,796,369)	(4,366,886)	7,119,658	9,406,657	2,896,398	(359,239)	5,900,219

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The following table indicates the periods in which financial assets and liabilities re-price as of December 31, 2009:

December 31, 2009

	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 yrs	Over 5 years	Non- interest bearing	Total
ASSETS							
Cash and balances with T.R. Central Bank	1,494,098	-	-	-	-	298,347	1,792,445
Due from banks	1,257,546	26,243	-	-	-	134,980	1,418,769
Financial assets at FVTPL	39,885	13,190	20,496	142,006	997	12,801	229,375
Derivative financial assets	34,712	161,432	59,469	72,205	7,953	89,517	425,288
Loans and advances to customers	5,594,940	2,394,835	5,269,191	5,137,022	1,240,599	-	19,636,587
Finance lease receivables	-	-	37,046	-	-	-	37,046
Available for sale investments	162,568	70,715	277,153	444,595	4,017	-	959,048
Other assets	919,984	1,197,036	1,666,420	1,164,582	306,790	80,140	5,334,952
Total assets	9,503,733	3,863,451	7,329,775	6,960,410	1,560,356	786,766	30,004,491
LIABILITIES							
Due to other banks							
Customer deposits	1,577,723	16,369	204	-	-	50,590	1,644,886
Derivative financial liabilities	12,359,644	3,971,592	192,638	33,657	-	1,893,693	18,451,224
Debt securities issued	21,871	38,595	51,534	90,469	27,972	40,228	270,669
Funds borrowed	-	301,533	-	326,937	-	-	628,470
Other liabilities	964,287	632,088	1,523,391	171,914	-	489,353	3,781,033
Total liabilities	14,923,525	4,960,177	1,767,767	622,977	27,972	3,294,757	25,597,175
Total interest sensitivity gap	(5,419,792)	(1,096,726)	5,562,008	6,337,433	1,532,384	(2,507,991)	4,407,316

4.3.4 Foreign exchange risk

The Group evaluates its exposure for the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Group enters into foreign currency forward transactions and swap transactions to decrease foreign currency position risk. The Group also engages in foreign currency and Eurobond buy-sell option transactions.

The position limit of the Group related to currency risk is determined according to the Foreign Currency Net Position Standard ratio determined by the BRSA.

Consolidated subsidiaries and associates determine position limit related with currency risk as determined by local regulatory bodies. Branches established abroad conduct their operations in local currencies of the countries they are incorporated in.

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As of December 31, 2011, the Group's net foreign currency position, after including off-balance sheet position (notional values of derivatives) is TL 425,482 short.

December 31, 2011

ASSETS	TL	USD	EUR	Other	Total
Cash and balances with T.R. Central Bank	474,442	92,857	2,172,875	224,419	2,964,593
Due from banks	1,093,825	898,924	93,026	10,114	2,095,889
Financial assets at FVTPL	86,513	15,830	327	-	102,670
Derivative financial assets	1,757,279	174,730	39,926	43,662	2,015,597
Loans and advances to customers	26,045,064	2,929,788	1,821,761	163,815	30,960,428
Factoring receivables	222,601	18,165	14,583	482	255,831
Finance lease receivables	212,656	215,021	571,514	1,012	1,000,203
Available for sale investments	6,002,143	735,921	95,460	-	6,833,524
Property and equipment	421,996	-	-	76	422,072
Other assets	527,893	21,985	2,027	354	552,259
Total	36,844,412	5,103,221	4,811,499	443,934	47,203,066
LIABILITIES					
Due to other banks	931,856	1,078,672	345,368	5,706	2,361,602
Customer deposits	21,009,478	4,787,400	2,523,596	412,846	28,733,320
Derivative financial liabilities	945,404	249,177	34,460	43,249	1,272,290
Debt securities issued	268,023	1,175,465	-	-	1,443,488
Funds borrowed	178,252	3,327,528	1,626,446	-	5,132,226
Other liabilities	1,519,267	41,804	40,701	329	1,602,101
Total	24,852,280	10,660,046	4,570,571	462,130	40,545,027
Net on balance sheet position	11,992,132	(5,556,825)	240,928	(18,196)	6,658,039
Net off-balance sheet position	(4,916,500)	5,178,787	(289,244)	19,068	(7,889)
Net position including TL	7,075,632	(378,038)	(48,316)	872	6,650,150

As of December 31, 2010, the Group's net foreign currency position, after including off-balance sheet position (notional values of derivatives) is TL 422,623 short.

December 31, 2010

ASSETS	TL	USD	EUR	Other	Total
Cash and balances with T.R. Central Bank	1,146,497	1,136,699	78,763	32,517	2,394,476
Due from banks	83,810	579,922	352,182	4,990	1,020,904
Financial assets at FVTPL	183,479	21,715	2,389	-	207,583
Derivative financial assets	280,776	136,450	3,792	-	421,018
Loans and advances to customers	22,478,213	2,032,773	1,443,865	197,834	26,152,685
Factoring receivables	155,040	34,921	31,104	-	221,065
Finance lease receivables	160,306	210,712	539,319	8,087	918,424
Available for sale investments	6,554,279	591,105	85,055	-	7,230,439
Property and equipment	392,424	-	-	39	392,463
Other assets	454,327	5,317	2,580	-	462,224
Total	31,889,151	4,749,614	2,539,049	243,467	39,421,281
LIABILITIES					
Due to other banks	1,327,620	486,833	204,280	18,846	2,037,579
Customer deposits	17,569,790	3,380,209	2,143,293	83,225	23,176,517
Derivative financial liabilities	664,134	131,326	6,855	-	802,315
Debt securities issued	-	417,340	-	-	417,340
Funds borrowed	544,703	2,849,996	1,842,740	-	5,237,439
Other liabilities	1,379,939	26,497	85,575	8,328	1,500,339
Total	21,486,186	7,292,201	4,282,743	110,399	33,171,529
Net on balance sheet position	10,402,965	(2,542,587)	(1,743,694)	133,068	6,249,752
Net off-balance sheet position	(4,089,324)	2,329,951	1,524,949	(124,310)	(358,734)
Net position including TL	6,313,641	(212,636)	(218,745)	8,758	5,891,018

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As of December 31, 2009, the Group's net foreign currency position, after including off-balance sheet position (notional values of derivatives) is TL 18,465 short.

December 31, 2009

ASSETS	TL	USD	EUR	Other	Total
Cash and balances with T.R. Central Bank	1,012,925	711,366	60,923	7,231	1,792,445
Due from banks	131,040	445,369	770,187	72,173	1,418,769
Financial assets at FVTPL	157,178	72,197	-	-	229,375
Derivative financial assets	376,490	46,153	2,645	-	425,288
Loans and advances to customers	16,513,957	1,734,369	1,174,115	214,146	19,636,587
Factoring receivables	35,465	1,581	-	-	37,046
Finance lease receivables	146,449	246,500	558,708	7,391	959,048
Available for sale investments	4,951,397	335,954	47,601	-	5,334,952
Property and equipment	401,361	-	-	-	401,361
Other assets	383,443	2,298	1,792	-	387,533
Total	24,109,705	3,595,787	2,615,971	300,941	30,622,404
LIABILITIES					
Due to other banks	129,456	1,444,450	69,609	1,371	1,644,886
Customer deposits	12,664,021	3,895,683	1,820,873	70,647	18,451,224
Derivative financial liabilities	240,475	25,649	4,335	210	270,669
Debt securities issued	-	628,470	-	-	628,470
Funds borrowed	440,978	2,435,191	904,864	-	3,781,033
Other liabilities	1,029,370	39,941	49,728	5,525	1,124,564
Total	14,504,300	8,469,384	2,849,409	77,753	25,900,846
Net on balance sheet position	9,605,405	(4,873,597)	(233,438)	223,188	4,721,558
Net off-balance sheet position	(5,569,256)	4,826,302	262,557	(223,477)	(703,874)
Net position including TL	4,036,149	(47,295)	29,119	(289)	4,017,684

Foreign currency sensitivity

The Group is mainly exposed to EUR and USD currencies.

The following table details the Group's sensitivity to a 10% appreciation and depreciation in the TL against USD and EUR. The 10% rate is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. A positive number indicates an increase in profit or loss and equity where the TL strengthens against USD and EUR.

	Change in currency rate in %	Effect on profit or loss			Effect on equity ^(*)		
		2011	2010	2009	2011	2010	2009
USD	10	(17,695)	6,832	(4,537)	(6,161)	7,510	(2,237)
EUR	10	(4,302)	(43,235)	(10,663)	(3,588)	(43,096)	(10,375)

^(*)Effect on equity also includes the effect of the change in foreign currency rates on income statement.

4.4 Liquidity risk

Liquidity risk arises in the general funding of Finansbank's financing and trading activities and in the management of investment positions. It includes the risk of increases in funding costs and the risk of being unable to liquidate a position in a timely manner at a reasonable price.

It reflects the potential mismatch of payment obligation to incoming payments, taking into account unexpected delays in repayments (term liquidity risk) or unexpectedly high payment outflows (withdrawal/ call risk). Liquidity risk involves both the risk of unexpected increases in the cost of the funding the portfolio of asset at appropriate maturities and rates, and the risk of being unable to liquidate a position in a timely manner on reasonable terms.

The primary objectives of Finansbank's asset and liability management are to ensure that sufficient liquidity is available to meet Finansbank's commitments to its customers in respect of repayment of deposits and ATM transactions, to satisfy Finansbank's other liquidity needs and to ensure compliance with capital adequacy and other applicable Central Bank regulations.

The ALCO is responsible for forming and overseeing the implementation of the asset and liability management strategy of Finansbank. The objective of Finansbank's asset and liability management strategy is to structure Finansbank's balance sheet in view of liquidity risk, maturity risk, interest rate risk and foreign exchange risk, while ensuring that Finansbank has adequate capital and is using capital to maximize net interest income.

The ALCO sets Finansbank's policies for interest rate levels and terms for loans and deposits and makes decisions regarding maturities and pricing of loans and deposits. In addition, members of the treasury department, including the group managers, managers, assistant managers and fixed income and foreign exchange traders, meet on a daily basis to monitor the risk exposure of Finansbank, particularly Finansbank's net foreign currency short position and the daily interest rate gap and duration.

Finansbank's treasury department is responsible for managing and implementing Finansbank's asset and liability positions on a day-to-day basis and ensuring the availability of funds for all of Finansbank's products and services distributed through Finansbank's branch network. The Treasury department measures and evaluates on a daily basis Finansbank's risk exposure and unfavorable changes in market conditions and regularly monitors the short-term mismatches between assets and liabilities.

Analysis of financial liabilities by remaining contractual maturities

The tables below show the Group's maturity distribution of certain financial liabilities, other than derivatives. The tables below are prepared by considering the contractual undiscounted cash flows expected on the nearest cash flow dates. The interest which will be paid at the maturity date is included in these tables.

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	Carrying Amount	Demand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 yrs	Over 5 years	Total
Due to other banks	2,361,602	36,748	2,243,695	56,291	27,714	-	-	2,364,448
Customer deposits	28,733,320	2,660,018	15,098,864	9,959,868	1,214,687	28,575	-	28,962,012
Debt securities issued	1,443,488	-	-	58,029	349,167	1,272,612	-	1,679,808
Funds borrowed	5,132,226	-	290,513	387,686	1,961,563	1,076,793	1,784,605	5,501,160
Other liabilities	1,330,690	-	1,166,248	65,088	83,405	15,949	-	1,330,690
Total	39,001,326	2,696,766	18,799,320	10,526,962	3,636,536	2,393,929	1,784,605	39,838,118

December 31, 2010

	Carrying Amount	Demand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 yrs	Over 5 years	Total
Due to other banks	2,037,579	21,707	1,926,312	89,379	2,352	-	-	2,039,750
Customer deposits	23,176,517	2,194,438	14,802,908	5,866,765	382,488	26,619	-	23,273,218
Debt securities issued	417,340	-	-	151,794	152,813	143,046	-	447,653
Funds borrowed	5,237,439	-	170,607	664,850	2,677,830	1,701,033	324,608	5,538,928
Other liabilities	1,174,516	-	962,815	135,300	67,230	9,171	-	1,174,516
Total	32,043,391	2,216,145	17,862,642	6,908,088	3,282,713	1,879,869	324,608	32,474,065

December 31, 2009

	Carrying Amount	Demand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 yrs	Over 5 years	Total
Due to other banks	1,644,886	50,590	463,038	16,616	1,128,191	-	-	1,658,435
Customer deposits	18,451,224	1,893,693	12,404,517	4,011,628	195,554	33,668	-	18,539,060
Debt securities issued	628,470	-	-	57,878	30,678	602,389	-	690,945
Funds borrowed	3,781,033	-	220,530	292,575	971,952	2,364,260	301,064	4,150,381
Other liabilities	820,893	-	625,405	103,412	80,385	11,691	-	820,893
Total	25,326,506	1,944,283	13,713,490	4,482,109	2,406,760	3,012,008	301,064	25,859,714

The tables below shows the remaining maturities of derivatives (notional, net)

December 31, 2011	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Total
Forward Contracts	(19,729)	4,719	(1,315)	-	-	(16,325)
Currency Swap Contracts	44,563	44,866	200,009	(118,525)	(219,359)	(48,446)
Futures	-	(26)	1	-	-	(25)
Options	7,309	4,043	61,146	-	-	72,498
Total	32,143	53,602	259,841	(118,525)	(219,359)	7,702

December 31, 2010	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Total
Forward Contracts	696,091	146	(6,069)	(45)	-	690,123
Currency Swap Contracts	35,151	(8,445)	(14,814)	(740,072)	(341,622)	(1,069,802)
Options	(3,014)	16,256	10,073	(432)	-	22,883
Total	728,228	7,957	(10,810)	(740,549)	(341,622)	(356,796)

December 31, 2009	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Over 5 years	Total
Forward Contracts	(507)	(3,101)	(332)	586	-	(3,354)
Currency Swap Contracts	29,094	83,865	97,446	(607,999)	(289,462)	(687,056)
Options	(3,342)	(2,222)	(1,169)	-	-	(6,733)
Total	25,245	78,542	95,945	(607,413)	(289,462)	(697,143)

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4.5 Insurance risk

The insurance policies issued by the Group carry a degree of risk. The risk under any insurance policy is the possibility of the insured event resulting in a claim. By the very nature of an insurance policy, risk is based on fortuity and is therefore unpredictable.

The principal risk that the Group may face under its insurance policies is that the actual claims and benefit payments or the timing thereof, differ from expectations. This could occur because the frequency or severity of claims is greater than estimated.

The above risk exposure is mitigated, to some extent, by diversification across a large portfolio of insurance policies. The variability of risks is also improved by the careful selection and implementation of the Group's underwriting policy, reinsurance strategy and internal guidelines, within an overall risk management framework. Pricing is based on assumptions and statistics with regard to trends, current market conditions and past experience.

Reinsurance arrangements include proportional, optional facultative, excess of loss and catastrophic coverage.

4.6 Fair values of financial assets and liabilities

a. Financial instruments not measured at fair value

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's statement of financial position at fair value and the fair value is materially different from the carrying amount.

	December 31, 2011	
Financial assets	Carrying amount	Fair value
Loans and advances to customers (Note 24)	30,387,372	30,071,722
Finance lease receivables	1,000,203	958,717
Financial liabilities	Carrying amount	Fair value
Customer deposits	28,733,320	28,739,387
Debt securities issued	1,443,488	1,284,695
Funds borrowed	5,132,226	5,004,593

	December 31, 2010	
Financial assets	Carrying amount	Fair value
Loans and advances to customers (Note 24)	25,159,454	25,177,367
Finance lease receivables	918,424	948,812
Financial liabilities	Carrying amount	Fair value
Customer deposits	23,176,517	23,174,584
Debt securities issued	417,340	414,376
Funds borrowed	5,237,439	5,240,499

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	December 31, 2009	
Financial assets	Carrying amount	Fair value
Loans and advances to customers (Note 24)	18,064,458	18,185,987
Finance lease receivables	959,048	914,360
Financial liabilities	Carrying amount	Fair value
Customer deposits	18,451,224	18,456,152
Debt securities issued	628,470	642,930
Funds borrowed	3,781,033	3,747,976

The following methods and assumptions were used to estimate the fair values of the above financial instruments at December 31, 2011, 2010 and 2009:

Cash and balances with T.R. Central Bank, due from and due to banks: The carrying amount of cash and balances with central banks, due from and due to banks approximates their fair value.

Loans and advances to customers and finance lease receivables: The fair value of loans and advances to customers and finance lease receivables with fixed interest rates is estimated using discounted cash flow models. The discount rates are based on current market interest rates offered for instruments with similar terms to the same borrowers or borrowers of similar credit quality. The carrying amount of floating rate loans is considered to approximate their fair values.

Customer deposits: The fair value of demand deposits is the payable amount at customer intention for withdrawal. The fair value of floating rated placements and the overnight deposits approximates their carrying amount. The fair value of fixed rate time deposits is calculated by discounting the expected future cash flows using the interest rate prevailing in the market.

Debt securities issued: Fair value is estimated using market prices, or if such are not available, using a discounted cash flow analysis, based on current market rates of similar maturity debt securities.

Funds borrowed: Fair value is estimated using market prices, or if such are not available, discounted cash flow analysis based on the Group's current incremental borrowing rates for similar types of borrowing arrangements is used.

b. Financial instruments measured at fair value

The tables below present the fair values of those financial assets and liabilities presented on the Group's statement of financial position at fair value by fair value measurement level at December 31, 2011, 2010 and 2009, as described in Note 2.20. The Group has no financial assets and liabilities measured in Level 3 at December 31, 2011, 2010 and 2009. In 2011, there is no transfer of financial assets and liabilities between Level 1 and Level 2.

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	December 31, 2011		
	Level 1	Level 2	Total
Financial assets			
Financial assets at FVTPL	88,650	14,020	102,670
Derivative financial assets	6,754	2,008,843	2,015,597
Loans and advances to customers designated at FVTPL (Note 24)	-	573,056	573,056
Available for sale investments ¹	6,802,840	23,553	6,826,393
Financial liabilities			
Derivative financial liabilities	2,137	1,270,153	1,272,290

¹ The amount excludes the equity investments of TL 7,131 measured at cost which do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

	December 31, 2010		
	Level 1	Level 2	Total
Financial assets			
Financial assets at FVTPL	187,624	19,959	207,583
Derivative financial assets	1,488	419,530	421,018
Loans and advances to customers designated at FVTPL (Note 24)	-	993,231	993,231
Available for sale investments ¹	7,018,793	205,515	7,224,308
Financial liabilities			
Derivative financial liabilities	2,753	799,562	802,315

¹ The amount excludes the equity investments of TL 6,131 measured at cost which do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

	December 31, 2009		
	Level 1	Level 2	Total
Financial assets			
Financial assets at FVTPL	147,079	82,296	229,375
Derivative financial assets	3,298	421,990	425,288
Loans and advances to customers designated at FVTPL (Note 24)	-	1,572,129	1,572,129
Available for sale investments ¹	5,286,809	41,765	5,328,574
Financial liabilities			
Derivative financial liabilities	1,402	269,267	270,669

¹ The amount excludes the equity investments of TL 6,378 measured at cost which do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

4.7 Capital adequacy and credit ratings

The Group's capital base includes all types of regulatory eligible Own Funds, as these are defined by the BRSA, which differs from the total equity under IFRS. Among others, the Group's regulatory own funds include the share capital, the share premium account, the reserves, retained earnings, and subordinated debt issues.

The Group manages actively its capital base by taking advantage of the contemporary means for raising capital, with the objective to sustain its capital adequacy ratios well above the minimum regulatory levels and at the same time to improve the weighted average cost of capital to the benefit of its shareholders. In this framework, both the calculation of the capital requirements and the dynamic management of the capital base are embedded in the business plan and the annual budgeting processes, in accordance with the capital adequacy targets that have been set in the Group's Risk Strategy.

The Group's total capital ratio is calculated by dividing its Tier 1 capital, which comprises general provisions per its statutory financial statements and evaluation surplus, by the aggregate of its risk-

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weighted assets, risk-weighted off-balance sheet exposures, market and other risk provisions. In accordance with the BRSA guidelines the Group must, in general, maintain a total capital ratio in excess of 8%; however, if operations include activities in offshore regions, as is the case with Finansbank, the BRSA imposes 12%.

The capital adequacy of the Group in accordance with the BRSA guidelines is as follows;

	December 31, 2011	December 31, 2010	December 31, 2009
Tier I capital	5,986,684	5,036,795	3,651,286
Tier II capital	1,881,160	1,324,270	1,685,870
Total capital	7,867,844	6,361,065	5,337,156
Deductions	(47,835)	(40,894)	(43,541)
Net total capital	7,820,009	6,320,171	5,293,615
Risk-weighted assets (including market & operational risk)	44,412,701	36,466,099	28,060,959
Capital adequacy ratios			
Tier I ratio	13.48%	13.81%	13.01%
Total capital ratio	17.61%	17.33%	18.86%

Credit ratings

The table below sets forth the credit ratings that have been assigned to the Bank by Moody's Investors Service Limited (referred to below as "Moody's"), Fitch Ratings Ltd. (referred to below as "Fitch") and Capital Intelligence Ltd. (referred below as 'Capital Intelligence'). All credit ratings have been recently affirmed and/or upgraded.

	Rating Agency		
	May 2011 Fitch	April 2011 Moody's	September 2011 Capital Intelligence
Long-term foreign currency	BBB-	Ba3	BB
Short-term foreign currency	F3	-	B
Long-term local currency deposit	BBB-	Baa2	BB
Short-term local currency deposit	F3	P-2	B
Long-term national rating	AAA	-	-
Individual rating	C	-	-
Support	3	-	3
Bank financial strength	BBB-	C-	BBB+
Outlook	Stable	Stable	Stable

5 Segment reporting

5.1 Operating segment

The Group has identified operating segments in a manner consistent with the internal reporting provided to the chief operating decision maker, the Board of Directors (previously Group Executive Committee was the chief operating decision maker, however it was dissolved in 2010). The Group manages its business through the following business segments:

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Retail banking

Retail banking includes individuals and micro enterprises. Finansbank's retail banking activities consist primarily of mortgages, consumer lending, credit and debit card services, deposits and investments and insurance products.

Corporate and commercial banking

Corporate and commercial banking include lending to all large and medium-sized companies. Finansbank's corporate and commercial banking activities include trade finance, traditional lending, SME banking, project finance, cash management, corporate syndication and secondary market transactions, deposits and the issuance of certificated debt instruments. Finansbank's SME banking activities consist primarily of revolving credit lines, installment loans, overdrafts, business housing loans and deposits.

The segment information below is presented on the basis used by the Board of Directors to evaluate performance. The Board of Directors reviews discrete financial information for each of its segments, including measures of operating results. The segments are managed primarily on the basis of their results, which are measured on a basis which is broadly consistent with the Summary of Significant Accounting Policies described in Note 2, with the exception of certain adjustments. Management considers that this information provides the most appropriate way of reviewing the performance of the business. The adjustments are as follows:

- **Fee income and expense:** Fees received and paid which are considered an integral part of the effective interest rate calculation are presented as 'Net fee and commission income' instead of "Net interest income" as under IFRS.
- **Recoveries on loans and advances to customers previously written-off:** The subsequent recovery on loan amounts previously written off are reported in "net other income" instead of as a reduction of the provision for loan losses as under IFRS.
- **Other activities:** Other activities include consolidated subsidiaries and treasury activities.
- **Operating expenses:** Represents certain operating expenses which are not included in the segment results of operations.
- **Other:** Adjustments included in other represent the unwinding of interest, which is not included in the provision for impairment losses in the segment results of operations, and other individually insignificant reclassifications.

Transactions between the business segments are on normal commercial terms and conditions.

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Breakdown by business segment	Corporate and Commercial Banking		Reconciling Items				Total
	Retail Banking	Corporate and Commercial Banking	Total	Fee income	Other activities	Operating expenses	Other
12 month period ended December 31, 2011							
External operating income	2,619,149	662,661	3,281,810	(24,428)	(202,058)	-	(5,346)
Net interest income	1,292,265	442,273	1,734,538	618,026	(259,575)	-	(5,346)
Net fee and commission income	1,271,223	108,318	1,379,541	(642,454)	(8,765)	-	-
Earned premium net of claims and commissions	-	-	-	-	80,849	-	-
Net other income	55,661	112,070	167,731	-	(14,567)	-	-
Revenues from other segments	54,694	15,284	69,978	-	(69,978)	-	-
Total operating income	2,673,843	677,945	3,351,788	(24,428)	(272,036)	-	(5,346)
Total operating expenses	(1,050,275)	(268,316)	(1,318,591)	24,428	(107,710)	(217,004)	10,379
Impairment losses on loans and advances to customers, finance lease receivables and factoring receivables	(269,229)	(34,981)	(304,210)	-	(42,480)	-	1,629
Profit before tax	1,354,339	374,648	1,728,987	-	(422,226)	(217,004)	6,662
Other Segment items							
Capital expenditure							197,003
Depreciation and amortization							128,021

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Breakdown by business segment	Retail Banking	Corporate and Commercial Banking	Total	Reconciling Items			Total
				Fee income	Other activities	Operating expenses	Other
12 month period ended December 31, 2010							
External operating income	2,031,676	489,680	2,521,356	(25,582)	315,513	-	3,718
Net interest income	1,154,889	324,727	1,479,616	481,651	117,449	-	3,718
Net fee and commission income	837,937	108,064	946,001	(507,233)	77,323	-	-
Earned premium net of claims and commissions	-	-	-	-	57,720	-	57,720
Net other income	38,850	56,889	95,739	-	63,021	-	158,760
Revenues from other segments	47,251	31,940	79,191	-	(79,191)	-	-
Total operating income	2,078,927	521,620	2,600,547	(25,582)	236,322	-	3,718
Total operating expenses	(930,304)	(279,413)	(1,209,717)	25,582	(114,024)	(111,999)	-
Impairment losses on loans and advances to customers, finance lease receivables and factoring receivables	(256,623)	(23,378)	(280,001)	-	7,066	-	-
Profit before tax	892,000	218,829	1,110,829	-	129,364	(111,999)	3,718
Other Segment items							
Capital expenditure							141,401
Depreciation and amortization							108,245

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Breakdown by business segment	Corporate and Commercial Banking		Reconciling Items					Total	
	Retail Banking	Commercial Banking	Total	Fee income	Recoveries on loans and advances to customers written-off	Other activities	Operating expenses		Other
12 month period ended December 31, 2009									
External operating income	1,664,420	576,604	2,241,024	(19,739)	(38,677)	461,706	-	16,292	2,660,606
Net interest income	922,557	394,241	1,316,798	390,842	-	287,228	-	19,328	2,014,196
Net fee and commission income	717,858	141,070	858,928	(410,581)	-	47,370	-	-	495,717
Earned premium net of claims and commissions	-	-	-	-	-	34,694	-	-	34,694
Net other income	24,005	41,293	65,298	-	(38,677)	92,414	-	(3,036)	115,999
Revenues from other segments	42,858	43,469	86,327	-	-	(86,327)	-	-	-
Total operating income	1,707,278	620,073	2,327,351	(19,739)	(38,677)	375,379	-	16,292	2,660,606
Total operating expenses									
Impairment losses on loans and advances to customers and finance lease receivables	(664,530)	(235,826)	(900,356)	19,739	-	(45,477)	(322,277)	19,956	(1,228,415)
Profit before tax	(307,125)	(135,450)	(442,575)	-	38,677	(70,059)	-	(18,248)	(492,205)
	735,623	248,797	984,420	-	-	259,843	(322,277)	18,000	939,986
Other Segment items									
Capital expenditure									126,659
Depreciation and amortization									92,051

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5.2 Geographical information

The Bank and its subsidiaries operate principally in Turkey and Bahrain. As the operation results outside of Turkey are quite negligible in the consolidated results, no further geographical segment information is presented.

6 Net interest income

	12 month period ended December 31,		
	2011	2010	2009
Interest earned on:			
Loans and advances to customers	4,217,733	3,460,414	3,396,729
Securities	439,754	406,232	574,454
Financial assets at FVTPL	8,824	24,776	20,666
Available for sale investments	430,930	381,456	553,788
Finance lease receivables	73,104	75,430	110,598
Factoring receivables	27,980	13,199	398
Due from banks	29,025	73,626	76,096
Interest income	4,787,596	4,028,901	4,158,275
Interest payable on:			
Customer deposits	(1,960,632)	(1,288,336)	(1,281,082)
Debt securities issued and funds borrowed	(594,319)	(558,531)	(733,418)
Due to other banks	(145,002)	(99,600)	(129,579)
Interest expense	(2,699,953)	(1,946,467)	(2,144,079)
Net interest income	2,087,643	2,082,434	2,014,196

7 Net fee and commission income

	12 month period ended December 31,		
	2011	2010	2009
Fee and commission income			
Banking	733,417	510,710	491,469
Brokerage and fund management	36,383	39,944	38,335
Other	1,633	1,404	1,268
Total	771,433	552,058	531,072
Fee and commission expense			
Banking	(38,299)	(31,573)	(31,678)
Other	(4,812)	(4,394)	(3,677)
Total	(43,111)	(35,967)	(35,355)
Net fee and commission income	728,322	516,091	495,717

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8 Earned premium net of claims and commissions

	12 month period ended December 31,		
	2011	2010	2009
Gross written premium	116,968	79,726	48,782
Change in unearned premium reserve	(13,121)	1,993	25,927
Other	11,604	6,565	4,885
Earned premium net of reinsurance	115,451	88,284	79,594
Paid claims	(17,831)	(11,922)	(8,774)
Change in mathematical reserve	(12,745)	(16,193)	(29,376)
Change in outstanding claims	(2,898)	(1,699)	(2,517)
Other	(1,128)	(750)	(4,233)
Net claims incurred	(34,602)	(30,564)	(44,900)
Earned premium net of claims and commissions	80,849	57,720	34,694

9 Net trading income and results from investment securities

	12 month period ended December 31,		
	2011	2010	2009
Gains / (losses) on foreign exchange	(11,749)	41,805	26,430
Unrealized gains / (losses) on interest rate instruments	51,376	(306,541)	(251,054)
Realized gains / (losses) on equity shares under FVTPL	(1,998)	1,817	2,885
Realized gains from investment securities	70,855	369,912	319,562
Unrealized gains/ (losses) on securities designated at FVTPL	1,701	614	(2,043)
Total	110,185	107,607	95,780

10 Other operating income

Other operating income mainly consists of gain on disposal of property and equipment, rent income, change in expense accruals and other.

11 Personnel expenses

	12 month period ended December 31,		
	2011	2010	2009
Wages and salaries	463,411	412,485	379,028
Bonuses and other fringe benefits	162,613	130,168	105,864
Pension costs: defined benefit plans (Note 12)	20,096	13,608	8,444
Other personnel related benefits	91,819	76,529	64,282
Total	737,939	632,790	557,618

The average number of employees of the Group during the year 2011, 2010 and 2009 was 11,785, 11,900 and 10,940, respectively.

Other personnel related benefits include the cost of various benefits such as health insurance, subsidy and legal staff related costs.

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12 Retirement benefit obligations

Defined benefit plans

In accordance with Turkish Labor Law, the Bank and its subsidiaries incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL 2,731.85 (full TL) as of December 31, 2011, TL 2,517.01 (full TL) as of December 31, 2010 and TL 2,365.16 (full TL) as of December 31, 2009) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of December 31, 2011, the Group reflected a liability calculated using the Projected Unit Credit Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds at the reporting date. As of December 31, 2011, retirement pay liability of the Bank and local subsidiaries are accounted based on the actuarial calculations performed by an independent actuary. The plan is unfunded and hence, there are no plan assets disclosed.

Amount recognized in the income statement:

	12 month period ended December 31,		
	2011	2010	2009
Current service cost	7,458	5,168	3,867
Interest cost on obligation	4,163	3,150	2,311
Amortization of unrecognized net (gain) / loss	647	300	13
Settlement/ curtailment / termination loss	7,828	4,990	2,253
Total charge	20,096	13,608	8,444

Net liability in the statement of financial position:

	December 31, 2011	December 31, 2010	December 31, 2009
Present value of unfunded obligations	56,378	42,897	30,769
Unrecognized actuarial (losses) / gains	(21,594)	(14,215)	(7,973)
Total	34,784	28,682	22,796

Movement in net liability:

	2011	2010	2009
Net liability at January 1	28,682	22,796	18,524
Benefit paid directly	(13,994)	(7,722)	(4,172)
Total expense recognized in the income statement	20,096	13,608	8,444
Net liability at December 31	34,784	28,682	22,796

Reconciliation of defined benefit obligation:

	2011	2010	2009
Defined benefit obligation at January 1	42,897	30,769	20,724
Current service cost	7,458	5,168	3,867
Interest cost on obligation	4,163	3,150	2,311
Benefits paid directly by the Group	(13,994)	(7,722)	(4,172)
Settlement/ curtailment losses	4,908	4,078	2,102
Actuarial losses / (gains)	10,946	7,454	5,937
Defined benefit obligation at December 31	56,378	42,897	30,769

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The weighted average assumptions used to determine the net periodic pension costs for the year ended December 31, 2011, 2010 and 2009 are:

	December 31, 2011	December 31, 2010	December 31, 2009
Discount rate	9.48%	10.25%	11.00%
Rate of compensation increase	6.50%	6.50%	6.30%
Average future years of working life	16.92	16.53	16.46
Inflation rate	5.00%	5.00%	4.80%

13 General and administrative expenses

	12 month period ended December 31,		
	2011	2010	2009
Utilities and rentals	254,229	228,048	195,978
Third party remuneration expenses and fees	65,155	53,154	44,860
Duties and taxes other than on income	58,592	45,550	22,638
Promotion and advertisement expenses	54,574	76,854	65,725
Credit card expenses	49,059	53,890	46,689
Audit, consulting and legal fees	32,239	20,152	14,748
Withholding taxes and duties on loans granted	28,536	22,724	19,123
Saving deposits insurance fund premiums	26,740	22,248	21,531
Stationary and other consumables	18,824	18,278	16,078
Traveling expenses	8,504	10,746	8,465
Subscriptions and contributions	6,308	5,050	4,739
Research expenses	3,316	4,151	2,260
Other administrative expenses	79,387	58,329	52,768
Total	685,463	619,174	515,602

14 Depreciation, amortization and impairment charges

	12 month period ended December 31,		
	2011	2010	2009
Intangible assets (Note 29)	42,525	30,805	21,772
Property and equipment (Note 30)	85,496	77,440	70,279
Total	128,021	108,245	92,051

15 Impairment losses on loans and advances to customers, finance lease receivables and factoring receivables

	12 month period ended December 31,		
	2011	2010	2009
Impairment losses on loans and advances to customers (Note 24)	340,235	264,165	463,107
Collection from loans written off	(58,061)	(37,579)	(29,450)
Legal expenses	47,553	34,175	18,249
Impairment losses on loans and advances to customers (net)	329,727	260,761	451,906
Impairment losses on finance lease receivables (Note 26)	12,442	11,214	40,299
Impairment losses on factoring receivables (Note 25)	2,892	960	-
Total	345,061	272,935	492,205

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16 Other operating expenses

	12 month period ended December 31,		
	2011	2010	2009
Maintenance and other related expenses	47,555	42,292	32,059
Provision charges for guarantees	-	4,614	30,528
Other provision charges	9,739	3,619	148
Total	57,294	50,525	62,735

17 Income tax expense

The details of income tax expense are as follows:

	12 month period ended December 31,		
	2011	2010	2009
Current tax	(226,271)	(256,588)	(122,966)
Deferred tax benefit/(charge) (Note 31)	(15,914)	37,873	(34,078)
Adjustments to prior periods corporate taxes ^(*)	(4,570)	-	-
Total	(246,755)	(218,715)	(157,044)
Profit before tax	1,096,419	1,131,912	939,986
Tax calculated based on the current tax rate of 20%	(219,284)	(226,382)	(187,997)
Effect of income not subject to taxation	10,238	40,551	44,698
Effect of expenses not deductible for tax purposes	(8,241)	(35,620)	(45,736)
Deferred tax on unused investment incentive	(14,758)	(2,506)	24,993
Other	(10,140)	5,242	6,998
Current tax and deferred tax	(242,185)	(218,715)	(157,044)
Adjustments to Corporate Taxes ^(*)	(4,570)	-	-
Income tax expense	(246,755)	(218,715)	(157,044)

^(*) The Parent Bank increased the corporate tax base concerning prior periods within the scope of "Law on the Restructuring of Some of the Receivables, and on the amendment of Social Insurances and General Health Insurance Law, and that of Other Several Laws and Legislative Decrees", no. 6111 and accrued a liability amounting to TL 17,907.

Also, the lawsuits files against Finans Finansal Kiralama A.Ş., one of the subsidiaries, in regards to investment incentives are finalized and Finans Finansal Kiralama A.Ş. has entitled for a refund of the corporate taxes paid in prior periods. Accordingly, TL 13,337 of corporate tax attributable to year 2009 refunded to Finans Finansal Kiralama A.Ş. on July 6, 2011 and August 11, 2011. In the accompanying financial statements as of December 31, 2011 the said amount is recognized as income in "current income tax charge" in the income statement.

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the years and periods. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis. Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

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In Turkey, corporate income tax is levied at the rate of 20% on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes for the year ended December 31, 2011. This rate was 20% for the year ended December 31, 2010 and 2009 as well. Capital gains arising from the sale of real property, participation shares, redeemed shares, founders shares and preemptive rights owned for at least two years are exempt at a rate of 75% from corporate tax provided that such gains are reflected in the equity within five years from the date of the sale. The remaining 25% of such capital gains are subject to corporate tax.

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate applied in 2011 is 20%. (2010 and 2009: 20%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

Furthermore, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between April 1-25 following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes on any dividends distributed, except for Turkish resident companies receiving dividends from who are also Turkish residents or Turkish branches of foreign companies. Income withholding tax applied between April 24, 2003 –July 22, 2006 is 10% and commencing from July 23, 2006, this rate has been changed to 15% upon the Council of Ministers' Resolution No: 2006/10731. Undistributed dividends incorporated in share capital are not subject to income withholding tax.

Investment incentives

According to the regulation, published in the Official Gazette on August 1, 2010 based on Law No. 6009, the investment allowance amounts can be used without a year limitation. Investment allowance amount, which will be used in the determination of the tax assessment, will not exceed 25% profit of the concerned period. In addition to this, 20% corporate tax rate will be applied on the income after the deduction of the allowance.

The Constitutional Court has decided that the sentence “the amount subject to deduction as exemption of investment allowance in tax basis determination cannot exceed 25% of relevant earnings” which was added to the first clause of 69th temporary article of Income Tax Law, and 5th article of Law No: 6009 is contrary to the Constitutional Law and has decided to repeal the mentioned sentence at the meeting dated February 9, 2012. In addition, it is decided to stay of execution until the publication of the decision in the Official Gazette, to avoid the circumstances and losses that are difficult or impossible to compensate subsequently and for that the annulment decision does not remain inconclusive, due to the fact that aforementioned sentence is repealed by the decision no: E. 2010/93 K. 2012/20 as of February 9, 2012 at the same meeting.

The Group did not reflect the effects resulting from the implementation of the decision of the Constitutional Court in the financial statements as of December 31, 2011, due to the fact that the annulment decision of the Constitutional Court has not been published in the Official Gazette yet, and

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it is uncertain if the mentioned stay of execution decision will be taken into consideration in preparing the corporate tax declaration for the year 2011. There will be no change in the net profit for the year and but a reclassification between deferred tax and current tax in case the effects of the mentioned decision are reflected in the financial statements as of December 31, 2011, due to the fact that the Company accounts for the deferred tax asset related to the unused investment allowance.

The Group offsets current tax assets and current tax liabilities separately for each entity considering the legally enforceable right to set off the recognized amounts. As of December 31, 2011, after the offsetting, the corporate tax payables is TL 85,880 (December 31, 2010, corporate tax payable amounting to TL 72,849, December 31, 2009, corporate tax payable amounting to TL 4,328 and corporate tax receivable amounting to TL 50,499) in the accompanying consolidated financial statements.

18 Discontinued operations

The Bank disposed of its subsidiary "Finans Malta Holdings Ltd."s shares on February 24, 2009 for EUR 185.0 million to NBG International Holdings B.V. fully paid in cash. The nominal value of these shares was EUR 110,001,490 corresponding to 99.99% of the capital. The gain on the disposal of the subsidiary before income tax amounted to TL 43,324.

Operation of the subsidiary was a discontinued operation as at December 31, 2009 and the comparative income statement has been restated to show the discontinued operation separately from continuing operations.

Profits attributable to the discontinued operation were as follows:

Results of discontinued operation

	December 31, 2009
Interest income	34,796
Interest expense	(20,258)
Net interest income	14,538
Fee and commission income	124
Fee and commission expense	(62)
Net fee and commission income	62
Net trading gain	911
Total operating income	15,511
Operating expenses	(480)
Impairment losses on loans and advances	-
Profit before tax	15,031
Income tax expense	(1,123)
Profit of discontinued operations	13,908
Gain on disposal of discontinued operation	43,324
Income tax expense on gain on disposal of discontinued operation	(9,855)
Profit for the year from discontinued operations (net)	47,377

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Net cash inflows on disposal of subsidiary;

	<u>December 31, 2009</u>
Consideration received in cash and cash equivalents	399,027
Less: cash and equivalent balances disposed of	(47,264)
Net cash inflows	<u>351,763</u>

Cash flows from discontinued operations;

	<u>December 31, 2009</u>
Net cash inflows / (outflows) from operating activities	(258,548)
Net cash inflows / (outflows) from investing activities	(21,022)
Net cash inflows / (outflows) from financing activities	201
Net cash inflows	<u>(279,369)</u>

19 Earnings per share

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Net profit attributable to equity holders of the parent	836,053	898,405	813,254
Net profit attributable to Finansbank ordinary shareholders	836,053	898,405	813,254
Adjusted weighted average number of ordinary shares outstanding	24,134,570,366	24,119,183,141	22,903,012,846
Basic and diluted earnings per share from discontinued operations	-	-	0.0021
Basic and diluted earnings per share from continuing operations	0.0347	0.0372	0.0355

The Bank decided to increase its share capital through bonus issue by way of the capitalization of its extraordinary reserves in 2011, 2010 and 2009. In 2011, 1,150,000,000 shares were issued by capitalizing reserves in the amount of TL 115,000, in 2010, 787,500,000 shares were issued by capitalizing reserves in the amount of TL 78,750 and in 2009, 750,000,000 shares were issued by capitalizing reserves in the amount of TL 75,000. In addition, on December 12, 2011, the Bank increased the paid in capital by TL 120,000 by issuing 1,200,000,000 shares. TL 3,667 of the total increase of TL 120,000 was provided from extraordinary general reserves in the form of bonus shares (36,670,000 shares) and the remaining amount of TL 116,333 (1,163,330,000 shares) was increased by rights issue and collected in cash.

The Group's weighted average number of ordinary shares outstanding for 2011, 2010 and 2009 has been adjusted as if the capital increase through bonus issue and the capital increase through rights issue in 2011 was made at the beginning of the earliest year presented. Accordingly for the purpose of EPS calculation, the weighted average number of ordinary shares outstanding is 24,134,570,366 for 2011, 24,119,183,141 for 2010 and 22,903,012,846 for 2009.

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20 Cash and balances with T.R. Central Bank

	December 31, 2011	December 31, 2010	December 31, 2009
Cash in hand	518,578	425,629	298,086
Balances with T.R. Central Bank- Non-obligatory	339,850	285,108	211,080
Balances with T.R. Central Bank- Obligatory	2,106,165	1,683,739	1,283,279
Total	2,964,593	2,394,476	1,792,445

As of December 31, 2011, the reserve rates for the reserve deposits at the Central Bank of Turkey for Turkish Lira are implemented within an interval from 5% to 11% depending on the maturity of the deposits (December 31, 2010 – 5.5%) and the reserve rates for the foreign currency liabilities are within an interval from 9% to 11% depending on the maturity of the deposits (December 31, 2010 – 11%).

With the changes in the “Communiqué on Reserve Requirements”, at most 40% of required reserves on TL liabilities could be maintained as foreign currency and at most 10% could be maintained as standard gold, at most 10% of required reserves on FC liabilities other than precious metal deposit accounts could be maintained as standard gold in T.R. Central Bank accounts.

21 Due from banks

	December 31, 2011	December 31, 2010	December 31, 2009
Time deposits with banks	1,187,222	820,564	1,324,245
Demand deposit with banks	206,086	195,362	80,169
Securities purchased under agreements to resell	702,581	4,978	14,355
Total	2,095,889	1,020,904	1,418,769

The Group does not have any past due or impaired balances due from banks.

The effective interest rates applied for time deposits are 10.54% for TL and 2.42% for USD accounts (December 31, 2010 - 9.27% for TL, 3.53% for USD and 3.75% for EUR, December 31, 2009 - 9.43% for TL, 0.50% for USD and 0.43% for EUR).

The amount of collaterals given for derivative transactions as of December 31, 2011, 2010 and 2009 are TL 67,748, TL 456,596 and TL 91,810, respectively.

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22 Financial assets at fair value through profit or loss

	December 31, 2011	December 31, 2010	December 31, 2009
Foreign corporate bonds held for trading	14,020	19,959	82,296
Turkish government bonds designated at FVTPL	-	74,654	78,452
Turkish government bonds held for trading	73,143	95,566	55,826
Equity shares held for trading	15,132	17,069	12,523
Mutual funds held for trading	375	335	278
Total	102,670	207,583	229,375

23 Derivative financial instruments

December 31, 2011	Contract/Notional Amount	Fair values Assets	Liabilities
Derivatives held for trading:			
Interest rate derivatives	12,035,649	744,800	(805,707)
Foreign exchange derivatives	15,104,680	267,929	(262,908)
Other types of derivatives	28,431	1,121	(713)
Fair value hedging derivatives:			
Interest rate derivatives	7,280,030	1,001,747	(168,637)
Cash flow hedging derivatives:			
Interest rate derivatives	531,238	-	(34,325)
Total	34,980,028	2,015,597	(1,272,290)

December 31, 2010	Contract/Notional Amount	Fair values Assets	Liabilities
Derivatives held for trading:			
Interest rate derivatives	9,411,734	220,245	(314,531)
Foreign exchange derivatives	12,339,570	168,669	(157,797)
Other types of derivatives	178,603	3,456	(3,202)
Fair value hedging derivatives:			
Interest rate derivatives	4,800,287	28,648	(257,240)
Cash flow hedging derivatives:			
Interest rate derivatives	654,938	-	(69,545)
Total	27,385,132	421,018	(802,315)

December 31, 2009	Contract/Notional Amount	Fair values Assets	Liabilities
Derivatives held for trading:			
Interest rate derivatives	11,431,698	337,222	(229,346)
Foreign exchange derivatives	7,434,665	82,186	(37,167)
Other types of derivatives	109,428	3,463	(1,463)
Fair value hedging derivatives:			
Interest rate derivatives	213,509	2,417	(2,693)
Total	19,189,300	425,288	(270,669)

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The Group's derivative financial instruments mostly comprise of OTC derivatives.

To avoid from the interest rate changes of deposits that have an average maturity of 1 month, the Group implements cash flow hedge accounting with interest rate swaps. The Group implements efficiency tests at the balance sheet dates for hedging purposes; the effective portions are accounted for under equity "Hedging Funds", whereas the ineffective portions are accounted for at income statement as defined in TAS 39. As a result of the mentioned hedge accounting, the fair value gains before taxes amounting to TL 13,797 are accounted for under equity during the current period (December 31, 2010 – TL 26,129, December 31, 2009 : Nil). The losses amounting to TL 18 for the ineffective portions are accounted for at the income statement. When the fair value hedge accounting cannot be effectively continued as stated in TAS 39, the fair value hedge accounting is ceased. Effective parts classified under equity due to hedge accounting are amortized through income statement until the maturity of swaps in case of ineffectiveness. The Parent Bank transferred losses amounting to TL 4,722 from the equity to the income statement due to the swaps that are matured or whose effectiveness deteriorated during the current period (December 31, 2010 – TL 341 gain, December 31, 2009 : Nil).

The Group's fair value hedges principally consist of interest rate swaps that are used to hedge changes in the fair value of fixed-rate, long-term loans due to movements in market interest rates. The Group records fair value losses on derivatives designated under fair value hedge under net trading income and results from investment securities in the income statement. For the year ended December 31, 2011 the Group recognized in the income statement TL 77,442 (December 31, 2010- TL 197,441, December 31, 2009 – TL 179,193) fair value losses on derivatives designated for fair value hedge accounting of loans and advances to customers. This amount was offset by TL 87,574 (December 31, 2010 – TL 167,726, December 31, 2009 – TL 175,697) of fair value gains recognized on hedged items (loans) of the Group.

For the year ended December 31, 2011 the Group recognized in the income statement fair value losses of TL 111,201 (December 31, 2010 losses –TL 8,029, December 31, 2009 gains -TL 6,986) on derivatives designated for fair value hedge accounting of available for sale investments (Eurobonds). This amount was offset by TL 111,316 (December 31, 2010 gains - TL 7,708, December 31, 2009 losses – TL 7,189) of fair value gains recognized on hedged items (available for sale investments).

For the year ended December 31, 2011 the Group recognized in the income statement fair value losses of TL 1,231 (December 31, 2010 : Nil, December 31, 2009 : Nil) on derivatives designated for fair value hedge accounting of available for sale investments (TL government bonds). This amount was offset by TL 994 (December 31, 2010: Nil, December 31, 2009: Nil) of fair value gains recognized on hedged items (available for sale investments).

For the year ended December 31, 2011 the Group recognized in the income statement fair value losses of TL 40,131 (December 31, 2010: Nil, December 31, 2009: Nil) on hedged items (Bonds issued). This amount was offset by TL 40,366 (December 31, 2010: Nil, December 31, 2009: Nil) of fair value gains recognized on derivatives designated for fair value hedge accounting of bonds issued.

For the year ended December 31, 2011 the Group recognized in the income statement fair value losses of TL 10,389 (December 31, 2010: Nil, December 31, 2009: Nil) on derivatives designated for fair value hedge accounting of credit commitments. This amount was offset by TL 10,123 (December 31, 2010: Nil, December 31, 2009: Nil) of fair value gains recognized on hedged items (credit commitments).

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24 Loans and advances to customers

	December 31, 2011	December 31, 2010	December 31, 2009
Loans and advances to customers at FVTPL	573,056	993,231	1,572,129
Loans and advances to customers at amortized cost	30,387,372	25,159,454	18,064,458
Total	30,960,428	26,152,685	19,636,587

December 31, 2011	Corporate	Consumer	Credit Cards	Mortgage	Total
Neither past due nor impaired	10,347,943	3,912,273	7,004,858	5,586,177	26,851,251
Past due not impaired	711,425	752,806	1,099,040	624,615	3,187,886
Impaired-collective	429,048	431,825	788,281	38,751	1,687,905
Impaired-individual	347,472	-	-	-	347,472
Total Gross	11,835,888	5,096,904	8,892,179	6,249,543	32,074,514

Less: Allowance for impairment on loans and advances to customers	(184,535)	(337,278)	(577,056)	(15,217)	(1,114,086)
Loans and advances to customers	11,651,353	4,759,626	8,315,123	6,234,326	30,960,428

December 31, 2010	Corporate	Consumer	Credit Cards	Mortgage	Total
Neither past due nor impaired	8,864,684	2,827,664	5,687,629	5,940,136	23,320,113
Past due not impaired	147,080	364,420	683,793	538,357	1,733,650
Impaired-collective	523,567	322,388	647,212	54,577	1,547,744
Impaired-individual	652,517	-	-	-	652,517
Total Gross	10,187,848	3,514,472	7,018,634	6,533,070	27,254,024

Less: Allowance for impairment on loans and advances to customers	(441,589)	(212,295)	(424,937)	(22,518)	(1,101,339)
Loans and advances to customers	9,746,259	3,302,177	6,593,697	6,510,552	26,152,685

December 31, 2009	Corporate	Consumer	Credit Cards	Mortgage	Total
Neither past due nor impaired	6,482,531	2,214,775	3,809,862	4,656,879	17,164,047
Past due not impaired	15,597	318,654	613,309	436,166	1,383,726
Impaired-collective	242,511	224,535	448,191	51,021	966,258
Impaired-individual	968,172	-	-	-	968,172
Total Gross	7,708,811	2,757,964	4,871,362	5,144,066	20,482,203

Less: Allowance for impairment on loans and advances to customers	(402,126)	(139,211)	(283,058)	(21,221)	(845,616)
Loans and advances to customers	7,306,685	2,618,753	4,588,304	5,122,845	19,636,587

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Movement in allowance for impairment on loans and advances to customers:

	2011	2010	2009
Balance at January 1	1,101,339	845,616	424,596
Impairment losses on loans and advances to customers	340,235	264,165	463,107
Loans written off (*)	(332,834)	(4,724)	(12,878)
Unwinding of interest	5,346	(3,718)	(19,328)
Effect of disposed subsidiary	-	-	(9,881)
Balance at December 31	1,114,086	1,101,339	845,616

(*) During the current period, TL 237,408 portion of the loans disclosed above which are under legal follow-up is disposed. TL 160,516 of aforementioned loans are disposed for TL 14,500 in cash, and the remaining portion amounting to TL 76,892 is disposed for TL 3,000 in cash and by means of receiving share from future collections.

The write-offs and recoveries by categories are as follows:

	12 month period ended December 31,		
	2011	2010	2009
Write-offs			
Credit cards	5,552	1,918	12,300
Mortgage and consumer loans	35,208	284	21
Corporate loans	292,074	2,522	557
Total write-offs	332,834	4,724	12,878
Recoveries			
Credit cards	15,504	24,840	26,307
Mortgage and consumer loans	479	1,383	1,378
Corporate loans	42,078	11,356	1,765
Total recoveries (Note 15)	58,061	37,579	29,450

Collateral and credit enhancements obtained during the year amount to TL 32,045 of residential, commercial or industrial property (December 31, 2010 - TL 39,691, December 31, 2009 - TL 44,388).

Ageing analysis of past due but not impaired loans and advances to customers per class of financial statements:

	Less than 30 days	31-60 days	61-90 days	Total
December 31, 2011				
Corporate	708,632	1,716	1,077	711,425
Consumer	515,573	167,057	70,176	752,806
Credit cards	822,689	216,579	59,772	1,099,040
Mortgage	359,882	166,849	97,884	624,615
Total	2,406,776	552,201	228,909	3,187,886
December 31, 2010				
Corporate	114,734	16,645	15,701	147,080
Consumer	236,982	87,875	39,563	364,420
Credit cards	532,964	110,208	40,621	683,793
Mortgage	305,638	143,788	88,931	538,357
Total	1,190,318	358,516	184,816	1,733,650

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December 31, 2009	Less than 30 days	31-60 days	61-90 days	Total
Corporate	13,575	1,412	610	15,597
Consumer	202,417	78,485	37,752	318,654
Credit cards	400,510	128,132	84,667	613,309
Mortgage	269,606	111,055	55,505	436,166
Total	886,108	319,084	178,534	1,383,726

As of December 31, 2011, for the loans and advances to customers past due but not impaired, the Group has collaterals amounting to TL 779,620 which are received for the total exposure to the customers including past due exposures (December 31, 2010 – TL 820,232, December 31, 2009 – TL 809,914). During the computation of the amount stated above, collaterals are capped with the maximum of the customers' risks.

Loans and advances to customers at fair value through profit or loss

Loans and advances to customers of the retail banking business have been designated at fair value through profit or loss as the Group manages these loans and advances to customers on a fair value basis in accordance with its investment strategy. Internal reporting and performance measurement of these loans and advances to customers are on a fair value basis.

The cumulative change in the fair value of these loans and advances to customers is set out below;

	December 31, 2011	December 31, 2010	December 31, 2009
Loans and advances at FVTPL	20,598	71,034	90,289

25 Factoring receivables

	December 31, 2011	December 31, 2010	December 31, 2009
No later than 1 year	259,683	212,751	37,046
Later than 1 year	-	9,274	-
Factoring receivables, gross	259,683	222,025	37,046
Less: Impairment Losses on factoring receivables	(3,852)	(960)	-
Total	255,831	221,065	37,046

26 Finance lease receivables

	December 31, 2011	December 31, 2010	December 31, 2009
Not later than 1 year	569,663	524,757	562,144
Later than 1 year but not later than 5 years	590,401	525,348	555,496
Later than 5 years	12,644	19,701	13,855
Finance lease receivables, gross	1,172,708	1,069,806	1,131,495
Unearned future finance income on finance leases	(110,215)	(89,696)	(112,115)
Net investment in finance leases	1,062,493	980,110	1,019,380
Less: Impairment losses on finance lease receivables	(62,290)	(61,686)	(60,332)
Finance lease receivables	1,000,203	918,424	959,048

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The net investment in finance lease receivables is analyzed as follows:

	December 31, 2011	December 31, 2010	December 31, 2009
Not later than 1 year	514,114	477,526	459,236
Later than 1 year but not later than 5 years	536,269	483,772	547,158
Later than 5 years	12,110	18,812	12,986
Total	1,062,493	980,110	1,019,380

Movements in impairment losses on finance lease receivables:

	2011	2010	2009
Balance at January 1	(61,686)	(60,332)	(20,051)
Impairment losses on finance lease receivables	(12,442)	(11,214)	(40,299)
Receivables written off	11,838	9,860	18
Balance at December 31	(62,290)	(61,686)	(60,332)

Finans Finansal Kiralama A.Ş. disposed finance lease receivables of TL 22,630 as of the transaction date. TL 15,748 receivables are disposed for TL 525 in cash under the circumstances of 5% sales revenue will be paid and the remaining part amounting to TL 7,152 is disposed for TL 235 in cash, as of November 30, 2011, totaling TL 760. TL 10,325 portion of the mentioned receivables comprised of receivables written-off previously. The remaining finance lease receivables amounting to TL 12,305 and provisions for non-performing finance lease receivables amounting to TL 11,954 are written-off.

Finance lease receivables

	December 31, 2011	December 31, 2010	December 31, 2009
Neither past due nor impaired	876,987	797,522	773,155
Past due not impaired	84,749	91,938	154,416
Impaired	100,757	90,650	91,809
Total Gross	1,062,493	980,110	1,019,380
Less: impairment losses on finance lease receivables	(62,290)	(61,686)	(60,332)
Finance lease receivables	1,000,203	918,424	959,048

As of December 31, 2011, 2010 and 2009 aging of past due but not impaired finance lease receivables are as follows;

	December 31, 2011	December 31, 2010	December 31, 2009
Between 1-30 days	40,434	28,980	54,230
Between 1-3 months	19,918	22,588	46,210
Between 3-12 months	3,002	14,922	34,059
Between 1-5 years	21,395	25,448	19,917
Total	84,749	91,938	154,416

Of the total aggregate amount of gross past due but not impaired finance lease receivables, the fair value of collaterals that is held as at December 31, 2011 was TL 76,489 (December 31, 2010 - TL 76,856, December 31, 2009 - TL 124,163).

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27 Available for sale investments

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Available-for-sale investment securities:			
Turkish government bonds and treasury bills	6,640,297	6,834,029	5,254,812
Corporate bonds	66,641	269,954	-
Debt securities	6,706,938	7,103,983	5,254,812
Equity shares	20,800	13,127	10,050
Mutual funds	105,786	113,329	70,090
Total available-for-sale investment securities	6,833,524	7,230,439	5,334,952

The movement of available for sale investments are summarized as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Balance at January 1	7,230,439	5,334,952	4,683,828
Additions within the year	13,063,752	22,515,758	11,724,407
Disposals (sale and redemption) within the year	(12,992,384)	(20,675,391)	(10,804,824)
Disposal of subsidiary	-	-	(374,142)
Gains / (losses) from changes in fair value	(468,283)	55,120	105,683
Balance at December 31	6,833,524	7,230,439	5,334,952

28 Investments in associates

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Balance at January 1	2,967	391	-
Additions	-	2,000	800
Group's share of profit/(loss) of associate	219	576	(409)
Balance at December 31	3,186	2,967	391

The Group's associate is as follows:

Name of associate	% of participation		
	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Bantaş Nakit ve Kıymetli Mal Taşıma ve Güvenlik Hizmetleri A.Ş.	33.33%	33.33%	33.33%

The associate's financial information is as follows:

Name of associate	The Group's share	Current Assets	Fixed Assets	Long Term Debt	Current Year Loss / Gain	Net Asset Value
Bantaş Nakit ve Kıymetli Mal Taşıma ve Güvenlik Hizmetleri A.Ş.	33.33%	8,402	6,626	945	1,318	9,558

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29 Intangible assets

Cost	Goodwill	Purchased software	Internally generated software	Total
December 31, 2010	12,453	115,956	110,237	238,646
Additions	-	17,150	61,773	78,923
December 31, 2011	12,453	133,106	172,010	317,569
Accumulated amortization and impairment				
December 31, 2010	(3,484)	(90,610)	(33,686)	(127,780)
Amortization charge for the year	-	(36,955)	(5,570)	(42,525)
December 31, 2011	(3,484)	(127,565)	(39,256)	(170,305)
Net book value as of December 31, 2011	8,969	5,541	132,754	147,264

The goodwill arisen from prior year's acquisitions was assessed for impairment and no adjustment to its carrying value is required. There was no indication of impairment for the remaining intangible assets.

Cost	Goodwill	Purchased software	Internally generated software	Total
December 31, 2009	12,453	95,656	63,668	171,777
Additions	-	20,300	46,569	66,869
December 31, 2010	12,453	115,956	110,237	238,646
Accumulated amortization and impairment				
December 31, 2009	(3,484)	(76,841)	(16,650)	(96,975)
Amortization charge for the year	-	(13,769)	(17,036)	(30,805)
December 31, 2010	(3,484)	(90,610)	(33,686)	(127,780)
Net book value as of December 31, 2010	8,969	25,346	76,551	110,866

Cost	Goodwill	Purchased software	Internally generated software	Total
December 31, 2008	12,453	81,927	37,595	131,975
Additions	-	13,729	26,073	39,802
At December 31, 2009	12,453	95,656	63,668	171,777
Accumulated amortization and impairment				
December 31, 2008	(3,484)	(64,910)	(6,809)	(75,203)
Amortization charge for the year	-	(11,931)	(9,841)	(21,772)
December 31, 2009	(3,484)	(76,841)	(16,650)	(96,975)
Net book value as of December 31, 2009	8,969	18,815	47,018	74,802

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30 Property and equipment

Cost	Land &Buildings	Vehicles & Equipment	Leasehold Improvements	Total
December 31, 2010	156,209	539,458	248,524	944,191
Additions	4,510	78,266	35,304	118,080
Disposals and write offs	(1,392)	(1,937)	(771)	(4,100)
At December 31, 2011	159,327	615,787	283,057	1,058,171
Accumulated depreciation and impairment				
December 31, 2010	(21,992)	(389,352)	(140,384)	(551,728)
Disposals and write offs	1,263	762	694	2,719
Impairment charge	(1,594)	-	-	(1,594)
Depreciation charge for the year	(3,600)	(58,334)	(23,562)	(85,496)
December 31, 2011	(25,923)	(446,924)	(163,252)	(636,099)
Net book value as of December 31, 2011	133,404	168,863	119,805	422,072

Cost	Land &Buildings	Vehicles & Equipment	Leasehold Improvements	Total
December 31, 2009	164,030	497,567	226,765	888,362
Additions	3,063	48,770	22,699	74,532
Disposals and write offs	(10,884)	(6,879)	(940)	(18,703)
At December 31, 2010	156,209	539,458	248,524	944,191
Accumulated depreciation and impairment				
December 31, 2009	(25,315)	(340,895)	(120,791)	(487,001)
Disposals and write offs	6,513	4,998	1,202	12,713
Depreciation charge for the year	(3,190)	(53,455)	(20,795)	(77,440)
December 31, 2010	(21,992)	(389,352)	(140,384)	(551,728)
Net book value as of December 31, 2010	134,217	150,106	108,140	392,463

Cost	Land &Buildings	Vehicles & Equipment	Leasehold Improvements	Total
December 31, 2008	160,323	442,856	200,562	803,741
Disposal of a subsidiary	-	(304)	(50)	(354)
Additions	3,707	56,897	26,253	86,857
Disposals and write offs	-	(1,882)	-	(1,882)
At December 31, 2009	164,030	497,567	226,765	888,362
Accumulated depreciation and impairment				
December 31, 2008	(22,085)	(293,558)	(102,601)	(418,244)
Disposal of a subsidiary	-	116	10	126
Disposals and write offs	-	1,400	-	1,400
Depreciation charge for the year	(3,230)	(48,849)	(18,200)	(70,279)
Effect of depreciation charge for disposed subsidiary	-	(4)	-	(4)
December 31, 2009	(25,315)	(340,895)	(120,791)	(487,001)
Net book value as of December 31, 2009	138,715	156,672	105,974	401,361

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31 Deferred tax assets and liabilities

	December 31, 2011		December 31, 2010		December 31, 2009	
	Deferred tax		Deferred tax		Deferred tax	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Loans and advances to customers	6,029	119,356	5,360	163,612	5,067	176,092
Deferred commission income	-	(27,697)	-	(28,954)	-	(11,498)
Plastic card bonus provisions	-	(751)	-	(1,014)	-	(2,361)
Employee termination benefits	102	(6,408)	131	(5,017)	622	(3,937)
Vacation pay liability and bonus accrual	472	(8,614)	591	(6,250)	-	(10,582)
Unused investment incentive certificate	7,729	-	22,487	-	24,993	-
Other temporary differences	1,654	5,273	(413)	18,141	(2,619)	14,960
Securities and derivatives	90	(25,480)	137	7,743	-	15,023
Economic life of property and equipment	-	17,499	-	11,173	-	13,650
Total deferred tax assets/(liabilities)	16,076	73,178	28,293	159,434	28,063	191,347

The Group has offset the deferred tax assets and deferred tax liabilities on an entity by entity basis based on the legally enforceable right to set off the recognized amounts i.e. offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Movement of net deferred tax asset/ (liability) is presented as follows:

	2011	2010	2009
Deferred tax asset / (liability) at January 1	(131,141)	(163,284)	(100,159)
Loans and advances to customers	44,925	12,773	(67,669)
Deferred commission income	(1,257)	17,455	(378)
Plastic card bonus provisions	(263)	(1,347)	1,299
Employee termination benefits	1,362	589	1,230
Vacation pay liability and bonus accrual	2,245	(3,741)	6,628
Unused investment incentive certificate	(14,758)	(2,506)	24,993
Other temporary differences	14,935	(974)	11,181
Securities and derivatives	(56,777)	13,147	(5,409)
Economic life of property and equipment	(6,326)	2,477	(5,953)
Deferred tax recognized in income statement under continued operations	(15,914)	37,873	(34,078)
Deferred tax recognized in equity	89,953	(5,730)	(27,939)
Effect of deferred tax of disposed subsidiary	-	-	(1,108)
Deferred tax asset / (liability) at December 31	(57,102)	(131,141)	(163,284)

32 Insurance related assets and receivables

	December 31, 2011	December 31, 2010	31.1.1 December 31, 2009
Insurance business receivables	27,886	16,124	9,357
Receivable from reinsurers and reinsurance business receivables	318	568	-
Total insurance related assets and receivables	28,204	16,692	9,357

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33 Other assets

	December 31, 2011	December 31, 2010	December 31, 2009
Prepaid expenses	196,540	116,496	101,315
Assets acquired through foreclosure proceedings	125,433	127,064	94,804
Checks clearance account	91,960	107,964	86,907
Trade receivables	46,368	44,201	61,843
Receivables from asset sales	42,265	5,440	-
VAT and other recoverable taxes	15,521	16,921	12,383
Receivables related to mutual fund sales	12,410	27,166	22,231
Other	21,762	16,972	8,050
Total other assets	552,259	462,224	387,533

34 Due to other banks

	December 31, 2011	December 31, 2010	December 31, 2009
Time deposits due to credit institutions	817,039	872,229	1,576,205
Demand deposits due to credit institutions	36,748	21,695	50,590
Interbank deposits	165,355	43,489	18,091
Securities sold under agreements to repurchase	1,342,460	1,100,166	-
Total due to other banks	2,361,602	2,037,579	1,644,886

Securities that are subject to repurchase agreements amounted to TL 1,489,964 as of December 31, 2011 (December 31, 2010 – TL 1,173,810, December 31, 2009 - Nil).

35 Customer deposits

	December 31, 2011	December 31, 2010	December 31, 2009
Deposits:			
Individuals	19,784,603	14,034,541	11,888,140
Corporate	8,846,667	8,846,673	6,185,564
Government and agencies	75,578	256,066	358,344
Total deposits	28,706,848	23,137,280	18,432,048
Securities sold to customers under agreements to repurchase	26,472	39,237	19,176
Total customer deposits	28,733,320	23,176,517	18,451,224

Securities that are subject to repurchase agreements amounted to TL 26,934 as of December 31, 2011 (December 31, 2010 - TL 38,947, December 31, 2009 - TL 19,168).

36 Debt securities issued

	Effective Interest Rate (%)	December 31, 2011	December 31, 2010	December 31, 2009
Corporate bonds - fixed rate	6.80%	1,393,182	201,783	252,507
Corporate bonds- floating rate	2.10%	50,306	215,557	375,963
Total debt securities issued		1,443,488	417,340	628,470

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On March 15, 2005, Finansbank obtained a loan via a special purpose entity, which issued USD 500 million Series 2005-A Floating Rate Notes secured on Finansbank's Diversified Payment Rights. The notes have a seven-year maturity and interest is paid quarterly, with no principal repayment for three years. Interest on the Series 2005-A Notes is determined as the three-month LIBOR plus 180 bps. The outstanding amount of Series 2005-A as of December 31, 2011 was USD 31 million (December 31, 2010 - USD 156 million, December 31, 2009- USD 281 million). In 2009, part of this issue to the amount of USD 39 million has been bought back by Finansbank and realized TL 3,280 gains in the income statement.

On March 24, 2006, Finansbank obtained a loan through a special purpose entity, which issued USD 110 million bonds with five-year maturity and USD 110 million bonds with a maturity of seven years. Interest is paid semi-annually for both issues and their interest rates were set at 6.25% and 6.50% respectively. In 2009, part of these issues to the amount of USD 45 million and the amount of USD 9 million have been bought back by Finansbank and realized TL 1,995 and TL 846 gains in the income statement, respectively. In 2010, part of these issues to the amount of USD 5 million and the amount of USD 30 million have been bought back by Finansbank and realized TL 152 and TL 771 losses in the income statement, respectively. In 2011, one of the bonds issued redeemed and TL 1,994 gains realized from the parts of the bond previously bought back.

The bank issued bonds with USD 500 million nominal value, 5 years maturity and 5.5% fixed interest rate in foreign markets on May 11, 2011. In 2011, part of this issue to the amount of USD 3 million has been bought back by Finansbank and realized TL 766 gains in the income statement. The bank has issued bonds with TL 150,000 nominal value, 6 months maturity and 10.66% interest rate on November 2, 2011 and issued bonds with TL 200,000 nominal value, 6 months maturity and 10.45% interest rate on November 30, 2011. In 2011, part of these issues to the amount of TL 35 million and the amount of TL 37 million have been bought back respectively by Finansbank and realized TL 29 total losses in the income statement.

37 Funds borrowed

	December 31, 2011	December 31, 2010	December 31, 2009
Subordinated loans - floating rate	1,742,641	1,010,383	1,473,261
Secured loan - fixed rate	-	295,133	299,733
Other	3,389,585	3,931,923	2,008,039
Total funds borrowed	5,132,226	5,237,439	3,781,033

The secured loan – fixed rate represents a credit card secured loan in TL, with a five-year maturity, issued on March 31, 2006. Interest is paid quarterly and is set at 11.94%.

On April 24, 2008, a subordinated loan agreement amounting to USD 650 million was signed with National Bank of Greece S.A., the majority shareholder of the Bank and the first tranche of the loan amounting USD 200 million was withdrawn on April 29, 2008. The remaining USD 450 million represented two tranches of USD 250 million and USD 200 million, respectively, and was withdrawn on October 30, 2008. The maturity date of each tranche is 10 years subsequent to the date of withdrawal whereas at the end of the fifth year of every single tranche there is an option of prepayment. The applicable interest is fixed as 6 months' LIBOR plus 2.70% for the first tranche. Interest on the second

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and third tranches is 6 months' LIBOR plus the Turkish 5 years sovereign average CDS per annum, whereby the Turkish 5 years sovereign average CDS per annum is capped at a maximum of 3.70%.

Interest is paid semi-annually on both tranches and the principal is due on the maturity dates. On July 19, 2010 Finansbank repaid part of this subordinated loan, amounting to USD 325 million. In addition, the Parent Bank received USD 260 million of subordinated loan in the current period from National Bank of Greece S.A.

On October 8, 2009, Finansbank obtained a subordinated loan from the National Bank of Greece S.A. of USD 200 million. The loan bears until (and including) the optional prepayment date interest at Libor plus 3.20% per annum and thereafter, interest at Libor plus 3.70% per annum. The loan matures on October 7, 2019, with an optional repayment date on October 7, 2014.

On December 30, 2009, a subordinated loan agreement amounting to USD 125 million was signed with National Bank of Greece S.A. The maturity date of each tranche is 10 years subsequent to the date of withdrawal whereas at the end of the fifth year of every single tranche there is an option of prepayment. The loan bears until (and including) the optional prepayment date interest at Libor plus 3.20% per annum and thereafter interest at Libor plus 3.70% per annum. Interest is paid semi-annually on both tranches and the principal is due on the maturity dates.

The Group extended the maturity of USD 220.5 million and EUR 210.8 million portion of the syndicated loan in line with the Board of Directors' decision no: 240 dated November 25, 2010, for one year as of December 1, 2011.

Other funds mainly include bilateral borrowings of Finansbank amounting to EUR 240.6 million, USD 980.0 million and TL 70.9 million, borrowings of Finans Leasing amounting to EUR 395.8 million, USD 191.9 million and borrowings of Finans Factoring amounting to EUR 15.1 million, USD 24.6 million.

38 Insurance related reserves and liabilities

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Mathematical reserves	68,193	42,308	28,130
Outstanding claims reserves	7,776	4,878	3,179
Unearned premium reserves	13	32	10
Liabilities arising from reinsurance operations	-	-	1,296
Other life insurance reserves	2,479	1,391	665
Total insurance related reserves and liabilities	<u>78,461</u>	<u>48,609</u>	<u>33,280</u>

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39 Other liabilities

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Payables for credit card settlements	726,303	612,552	371,587
Checks payable	234,389	124,594	91,066
Credit cards payable	113,596	117,705	75,845
Other provisions	109,715	118,673	143,478
Taxes payable - other than income taxes	101,803	64,046	56,158
Clearance checks	91,960	107,964	86,907
Payroll related accruals	74,360	56,101	52,908
Creditors and suppliers	65,088	135,300	103,412
Accrued expenses and deferred income	21,222	31,743	17,082
Blocked accounts	15,949	9,171	11,691
Collaterals received	15,407	18,284	18,891
Legal fees payable	9,045	11,129	4,567
Dividends payable to shareholders	-	-	22,910
Other	23,264	93,077	68,062
Total other liabilities	<u>1,602,101</u>	<u>1,500,339</u>	<u>1,124,564</u>

The movement of other provisions is summarized as follows:

	<u>Provision for credit card bonus payments</u>	<u>Provision for guarantees</u>	<u>Other</u>	<u>Total</u>
2011				
Balance at January 1	15,148	88,604	14,921	118,673
Charge for the year	17,830	19,021	9,027	45,878
Utilized	(19,146)	(28,472)	(7,218)	(54,836)
Balance at December 31	<u>13,832</u>	<u>79,153</u>	<u>16,730</u>	<u>109,715</u>
	<u>Provision for credit card bonus payments</u>	<u>Provision for guarantees</u>	<u>Other</u>	<u>Total</u>
2010				
Balance at January 1	11,805	83,995	47,678	143,478
Charge for the year	27,559	24,235	-	51,794
Utilized	(24,216)	(19,626)	(32,757)	(76,599)
Balance at December 31	<u>15,148</u>	<u>88,604</u>	<u>14,921</u>	<u>118,673</u>
	<u>Provision for credit card bonus payments</u>	<u>Provision for guarantees</u>	<u>Other</u>	<u>Total</u>
2009				
Balance at January 1	15,388	53,467	60,013	128,868
Charge for the year	14,836	39,569	148	54,553
Utilized	(18,419)	(9,041)	(12,483)	(39,943)
Balance at December 31	<u>11,805</u>	<u>83,995</u>	<u>47,678</u>	<u>143,478</u>

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40 Contingent liabilities and commitments

a. Pending tax inspections

The tax authorities have not yet audited all subsidiaries for certain financial years and accordingly their tax obligations for those years may not be considered final. Additional taxes and penalties may be imposed as a result of such tax audits; although the amount cannot be determined at present, it is not expected to have a material effect on the Group's net assets.

b. Credit commitments

In the normal course of business, the Group enters into various contractual commitments on behalf of its customers and is a party to financial instruments with off-balance sheet risk ("non-cash loans") to meet the financing needs of its customers. These contractual commitments consist of commitments to extend credit, commercial letters of credit and standby letters of credit and guarantees. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of the conditions established in the contract. Commercial letters of credit ensure payment by a bank to a third party for a customer's foreign or domestic trade transactions, generally to finance a commercial contract for the shipment of goods. Standby letters of credit and financial guarantees are conditional commitments issued by the Group to guarantee the performance of a customer to a third party. All of these arrangements are related to the normal lending activities of the Group. The Group's exposure to credit loss in the events of non-performance by the other party to the financial instrument for commitments to extend credit and commercial and standby letters of credit is represented by the contractual notional amount of those instruments.

The Group uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

	December 31, 2011	December 31, 2010	December 31, 2009
Letters of guarantee	5,215,046	4,554,985	3,945,226
Acceptance credits	1,048,329	721,538	664,139
Letters of credit	688,611	722,850	539,923
Other guarantees	33,672	36,309	68,653
Total non-cash loans	6,985,658	6,035,682	5,217,941
Other commitments	4,741,652	2,616,912	2,530,358
Credit card limits	16,020,220	11,731,035	7,764,698
Total commitments	27,747,530	20,383,629	15,512,997

c. Assets pledged as collaterals

	December 31, 2011	December 31, 2010	December 31, 2009
Reserve deposits with T.R. Central Bank	2,106,165	1,683,739	1,283,279
Securities given as collateral	1,187,062	340,616	273,797
Blocked placements at foreign banks	59,921	49,600	49,296
Securities pledged for borrowings	-	-	7,339
Total	3,353,148	2,073,955	1,613,711

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d. Operating lease commitments

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>December 31, 2009</u>
No later than 1 year	106,404	75,416	63,139
Later than 1 year and no later than 5 years	311,976	235,467	203,326
Later than 5 years	135,224	98,171	69,680
Total operating lease commitments	553,604	409,054	336,145

41 Share capital issued

Share capital	Number of shares	Amount TL
January 1, 2009	15,000,000,000	1,500,000
Increase of share capital	750,000,000	75,000
December 31, 2009	15,750,000,000	1,575,000
Increase of share capital	6,300,000,000	630,000
December 31, 2010	22,050,000,000	2,205,000
Increase of share capital	2,350,000,000	235,000
December 31, 2011	24,400,000,000	2,440,000

The Bank's share capital is composed of 24,400,000,000 ordinary shares and 100 founder shares. Founder shares have no voting rights but are entitled to receive 10% of statutory profit based on statutory financial statement as dividend after allocation of tax, legal reserve and first dividend (5% of nominal share capital) to shareholders.

On June 20, 2011, the paid in capital of the Bank increased from TL 2,205,000 to TL 2,320,000 within the registered capital ceiling. The increase was made through capitalization of extraordinary reserves in the amount of TL 115,000.

On December 12, 2011, the paid in capital of the Bank increased from TL 2,320,000 to TL 2,440,000 within the registered capital ceiling. TL 3,667 of the total increase of TL 120,000 was provided from extraordinary general reserves in the form of bonus shares and the remaining amount of TL 116,333 was increased by rights issue and collected in cash.

42 Reserves and retained earnings

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Legal reserves	269,937	206,865	170,731
Other reserves and retained earnings	3,965,467	3,439,464	2,660,823
Total	4,235,404	3,646,329	2,831,554

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profit at the rate of 5%, until the total reserve reaches a maximum of 20% of the Bank's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted.

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43 Dividends

The dividends declared and paid by the Group, on its shares with respect to the profits for the prior periods indicated; are as follows:

	2010	2009	2008
Dividends in the form of bonus shares	110,250	78,750	75,000
Cash dividends to founder shares	129,752 (*)	-	26,952

(*) TL 75,868 of the dividend distribution is incorporated from the profit of year 2010 and the remaining TL 53,884 is from the profit of year 2009.

Each of the foregoing amounts was distributed in the subsequent periods.

44 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents consist of the following balances;

	December 31, 2011	December 31, 2010	December 31, 2009
Cash and balances with T.R. Central Bank	998,791	2,392,970	1,784,535
FVTPL with original maturities of less than three months	150	83	825
Due from banks with original maturities of less than three months	2,083,908	1,015,632	1,417,828
Total cash and cash equivalents	3,082,849	3,408,685	3,203,188

45 Related - party balances and transactions

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at December 31, 2011, 2010 and 2009 are presented below. Transactions were entered into with related parties during the course of business at market rates.

a. Balances and transactions with members of the Board of Directors and the key management of the Group

The Group entered into banking transactions with members of the Board of Directors and key management of the Bank and other Group companies, as well as with the close members of family and entities controlled or jointly controlled by those persons, in the normal course of business. The list of the members of the Board of Directors of the Bank is shown under Note 1 General Information.

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	December 31, 2011	December 31, 2010	December 31, 2009
Assets			
Loans and advances to customers	77	-	4
Liabilities			
Customer deposits	7,266	4,975	10,604

	12 month period ended December 31		
	2011	2010	2009
Income Statement			
Interest income	4	-	2
Fee and commission income	-	1	3
Interest expense	556	333	1,319

Compensation of the members of the Board of Directors and the key management of the Group

The members of Board of Directors and management received remuneration and benefits totaling approximately TL 33,879 as of December 31, 2011, (December 31, 2010 – TL 34,773, December 31, 2009 – TL 23,626) comprising mainly of salaries and other short-term benefits.

b. Balances and transactions with shareholders

	December 31, 2011	December 31, 2010	December 31, 2009
Assets			
Due from banks	1,918	556	104
Derivative financial assets ^(*)	-	3,141	7,919
Liabilities			
Due to other banks	31,352	1,832	1,116,700
Derivative financial liabilities ^(*)	13,399	7,722	-
Funds borrowed- Subordinated loans ^(**)	1,742,641	1,010,295	1,473,261
Funds borrowed-Other ^(**)	836,126	1,134,114	953,918

	12 month period ended December 31,		
	2011	2010	2009
Income Statement			
Interest income	-	29	103
Fee and commission income	2	93	79
Interest expense	77,122	76,951	68,527
Fee and commission expense	1,785	200	634
Net trading income and results from investment securities	(13,495)	(4,521)	11,278

^(*) The amounts refer to fair values of the derivative transactions presented at the consolidated statement of financial position as of the balance sheet date.

^(**) Please refer to Note 37.

The Group has not pledged any guarantees for the above transactions.

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c. Other related party (other companies of NBG Group) balances and transactions

Transactions between the other related parties are as follows:

	<u>December 31, 2011</u>	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Assets			
Due from banks	2,613	45,776	53,124
Loans and advances to customers	34,873	29,061	31,550
Derivative financial assets ^(*)	12,407	10,915	26,235
Liabilities			
Due to other banks	1,773	98,264	4,489
Customer deposits	-	799	41,362
Funds borrowed	-	8,013	10,769
Letters of guarantees	-	-	22,740
Derivative financial liabilities ^(*)	3,115	5,486	3,808
	<u>12 month period ended December 31,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Income Statement			
Interest income	3,266	13,492	29,420
Fee and commission income	1,200	2,556	860
Interest expense	882	3,499	5,127
Net trading income and results from investment securities	8,923	5,550	22,427

^(*) The amounts refer to fair values of the derivative transactions presented at the consolidated statement of financial position as of the balance sheet date.

d. Balances and transactions with subsidiaries

Balances and transactions between the Bank and its subsidiaries, which are related parties of the Bank have been eliminated on consolidation and are not disclosed in this note.

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46 Group consolidated companies

Name	Place of Incorporation	% Participation		
		December 31, 2011	December 31, 2010	December 31, 2009
Finans Emeklilik ve Hayat A.Ş. (Finans Pension Fund)	Turkey	99.99%	99.99%	99.99%
Finans Faktoring Hizmetleri A.Ş. (Finans Factoring)	Turkey	99.99%	99.99%	99.99%
Finans Tüketici Finansmanı A.Ş. (Finans Consumer Finance)	Turkey	99.99%	99.99%	99.99%
Finans Yatırım Menkul Değerler A.Ş. (Finans Invest)	Turkey	100.00%	100.00%	100.00%
Finans Portföy Yönetimi A.Ş. (Finans Portfolio Asset Management)	Turkey	100.00%	100.00%	100.00%
Finans Yatırım Ortaklığı A.Ş. (Finans Investment Trust)	Turkey	49.36%	70.28%	81.00%
Finans Finansal Kiralama A.Ş. (Finans Leasing)	Turkey	64.32%	64.32%	59.24%
İbtech Uluslararası Bilişim ve İletişim Teknolojileri Araştırma, Geliştirme, Danışmanlık, Destek San. ve Tic. A.Ş. (İBTech)	Turkey	99.99%	99.91%	99.91%
Bosphorus Financial Services	Cayman Islands	100%	100%	100%
Istanbul Bond Company	Luxembourg	100%	100%	100%

47 Subsequent events

The Bank's application to issue bonds with TL 2,000,000 nominal value was approved by the Capital Markets Board on March 2, 2012.

The details concerning the investment allowance issues after the balance sheet date is described in Section 17 under Investment incentives.

In the Ordinary General Assembly Meeting of Finansbank A.S. held on March 29, 2012. The statutory financial statements of the Bank were approved and also it was unanimously resolved that 2011 net profit will be retained within the equity of the Bank.