KPMG

Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi

Independent Auditors' Report on Review of Condensed Consolidated Interim Financial Information For the Six-month Period Ended 30 June 2010

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi

5 August 2010

This report contains 1 page of independent auditors' report on review of condensed consolidated interim financial information and 57 pages of consolidated financial statements and notes to the consolidated financial statements.

Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi

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Independent auditors' report on review of condensed consolidated interim financial information

To the Board of Directors of
Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi:

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi ("the Bank") and its subsidiaries (collectively "the Group") as at 30 June 2010 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended ("the consolidated interim financial information"). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information of the Group is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting.

KPMG Akis Bagımsız Denetim ve SMMM AŞ

5 August 2010
Istanbul, Turkey

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Condensed Consolidated Interim Statement of Financial Position
As at 30 June 2010

(Currency - In thousands of Turkish Lira)

	Note	Reviewed 30 June 2010	Audited 31 December 2009
ASSETS			
Cash and balances with central banks		100,174	53,336
Due from banks and financial institutions		10,567	25,507
Interbank and other money market placements		2,827	23,559
Reserve deposits at central banks		90,068	86,033
Trading assets	*5*	53,350	20,373
Investment securities	*6*	96,271	86,671
Loaned securities	*6*	23,946	26,435
Receivables from customers due to brokerage activities		593	480
Loans and advances to customers	*7*	1,058,395	1,206,781
Finance lease receivables	*8*	8,724	9,814
Property and equipment	*9*	12,524	13,810
Intangible assets	*9*	45,571	45,103
Deferred tax assets	*4*	2,526	4,532
Other assets		24,046	25,817
Total assets		**1,529,582**	**1,628,251**
LIABILITIES			
Deposit from other banks	*10*	694	580
Customer deposits	*10*	84,098	64,080
Other money market deposits	*10*	23,886	44,441
Trading liabilities	*5*	17,733	14,500
Funds borrowed	*11*	837,339	943,634
Debt securities issued	*12*	51,663	51,633
Other liabilities		70,523	79,354
Provisions		2,518	3,603
Current tax liabilities	*4*	-	176
Deferred tax liabilities	*4*	1,474	28
Total liabilities		**1,089,928**	**1,202,029**
EQUITY			
Share capital and share premium	*13*	379,114	379,114
Available-for-sale reserve, net of tax	*13*	(1,426)	(400)
Currency translation reserve	*13*	(11,541)	(10,862)
Retained earnings		73,507	58,370
Total equity		**439,654**	**426,222**
Total equity and liabilities		**1,529,582**	**1,628,251**

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Income
For the six-month period ended 30 June 2010

(Currency - In thousands of Turkish Lira)

	Note	Reviewed 1 January – 30 June 2010	Reviewed 1 April – 30 June 2010	Reviewed 1 January – 30 June 2009	Reviewed 1 April – 30 June 2009
Interest income					
Interest income on loans and advances		58,442	28,901	70,094	31,209
Interest income on deposits with other banks and financial institutions		238	122	645	405
Interest income on investment securities		8,377	4,049	7,102	3,321
Interest income on interbank and other money market placements		612	165	5,021	2,574
Interest income on financial leases		401	223	787	332
Other interest income		6,381	3,181	4,104	1,663
Total interest income		**74,451**	**36,641**	**87,753**	**39,504**
Interest expense					
Interest expense on deposits		(370)	(197)	(651)	(277)
Interest expense on other money market deposits		(434)	(169)	(509)	(244)
Interest expense on funds borrowed		(29,485)	(14,475)	(28,844)	(12,962)
Interest expense on debt securities issued		(2,787)	(1,758)	-	-
Other interest expense		(4,453)	(2,156)	(6,221)	(2,954)
Total interest expense		**(37,529)**	**(18,755)**	**(36,225)**	**(16,437)**
Net interest income		**36,922**	**17,886**	**51,528**	**23,067**
Fees and commission income		9,597	4,526	9,053	4,985
Fees and commission expense		(672)	(339)	(1,034)	(607)
Net fee and commission income		**8,925**	**4,187**	**8,019**	**4,378**
Net trading income		5,337	961	75	73
Foreign exchange gain, net		4,447	3,490	9,301	680
Other operating income		867	656	296	182
Total operating income		**56,498**	**27,180**	**69,219**	**28,380**
Net impairment loss on financial assets		**(4,640)**	**(618)**	**(12,512)**	**(1,986)**
Personnel expenses		(16,668)	(8,440)	(16,621)	(7,972)
Depreciation and amortisation		(3,651)	(1,859)	(3,615)	(1,791)
Administrative expenses		(9,063)	(4,785)	(11,600)	(5,997)
Taxes other than on income		(1,020)	(413)	(1,169)	(282)
Other expenses		(1,860)	(1,266)	(1,592)	(738)
Total operating expense		**(32,262)**	**(16,763)**	**(34,597)**	**(16,780)**
Profit before income tax		**19,596**	**9,799**	**22,110**	**9,614**
Income tax	*4*	(4,459)	(2,459)	(5,303)	(2,517)
Profit for the period		**15,137**	**7,340**	**16,807**	**7,097**

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Comprehensive Income
For the six-month period ended 30 June 2010

(Currency - In thousands of Turkish Lira)

	Reviewed 30 June 2010	Reviewed 30 June 2009
Profit for the period	**15,137**	**16,807**
Other comprehensive income		
Foreign currency translation differences for foreign operations	(679)	(11,788)
Available-for-sale reserve		
Net change in fair value of available-for-sale financial assets	(1,859)	230
Net change in fair value of available-for-sale financial assets transferred to profit or loss	165	-
Income tax on other comprehensive income	668	8
Other comprehensive income for the period, net of income tax	**(1,705)**	**(11,550)**
Total comprehensive income for the period	**13,432**	**5,257**

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Condensed Consolidated Interim Statement of Changes in Equity
For the six-month period ended 30 June 2010

(Currency - In thousands of Turkish Lira)

	Note	Share capital	Share premium	Adjustment to share capital	Available-for-sale reserve, net of tax	Currency translation reserve	Retained earnings	Total
At 1 January 2009		**337,292**	**20,121**	**21,701**	**(1,583)**	**(35)**	**89,668**	**467,164**
Total comprehensive income for the year								
Profit for the year		-	-	-	-	-	16,807	16,807
Other comprehensive income								
Foreign currency translation differences		-	-	-	-	(11,788)	-	(11,788)
Net change in fair value of available-for-sale financial assets, net of tax		-	-	-	238	-	-	238
Total other comprehensive income		**-**	**-**	**-**	**238**	**(11,788)**	**-**	**(11,550)**
Total comprehensive income for the year		**-**	**-**	**-**	**238**	**(11,788)**	**16,807**	**5,257**
Contributions by and distributions to owners								
Share capital increase		-	-	-	-	-	-	-
Dividends to equity holders		-	-	-	-	-	(50,000)	(50,000)
Total contributions by and distributions to owners		**-**	**-**	**-**	**-**	**-**	**(50,000)**	**(50,000)**
At 30 June 2009		**337,292**	**20,121**	**21,701**	**(1,345)**	**(11,823)**	**56,475**	**422,421**
At 1 January 2010		**337,292**	**20,121**	**21,701**	**(400)**	**(10,862)**	**58,370**	**426,222**
Total comprehensive income for the year								
Profit for the year		-	-	-	-	-	15,137	15,137
Other comprehensive income								
Foreign currency translation differences	*13*	-	-	-	-	(679)	-	(679)
Net change in fair value of available-for-sale financial assets, net of tax	*13*	-	-	-	(1,026)	-	-	(1,026)
Total other comprehensive income		**-**	**-**	**-**	**(1,026)**	**(679)**	**-**	**(1,705)**
Total comprehensive income for the year		**-**	**-**	**-**	**(1,026)**	**(679)**	**15,137**	**13,432**
Contributions by and distributions to owners								
Share capital increase		-	-	-	-	-	-	-
Dividends to equity holders		-	-	-	-	-	-	-
Total contributions by and distributions to owners		**-**	**-**	**-**	**-**	**-**	**-**	**-**
At 30 June 2010		**337,292**	**20,121**	**21,701**	**(1,426)**	**(11,541)**	**73,507**	**439,654**

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Condensed Consolidated Interim Statement of Cash Flow
For the six-month period ended 30 June 2010
(Currency - In thousands of Turkish Lira)

	Note	Reviewed 30 June 2010	Reviewed 30 June 2009
Cash flows from operating activities			
Interest received		76,270	92,513
Interest paid		(38,196)	(39,990)
Fees and commissions received		8,695	9,139
Trading income		5,337	75
Recoveries from non-performing loans	*7*	8,445	4,556
Fees and commissions paid		(316)	(1,038)
Cash payments to employees and other parties		(17,676)	(15,121)
Cash received from other operating activities		3,499	7,020
Cash paid for other operating activities		(11,754)	(18,606)
Income taxes paid		(396)	(60)
		33,908	**38,488**
Change in banks and financial institutions		2,640	21,491
Change in trading assets		(490)	(46)
Change in reserve deposits at central banks		(4,042)	7,751
Change in loans and advances		103,350	70,968
Change in finance lease receivables		1,093	5,375
Change in other assets		1,414	1,762
Change in receivables from customers due to brokerage activities		(113)	46
Change in deposit from other banks		114	74
Change in customer deposits		20,018	11,725
Change in interbank and other money market deposits		(20,553)	(18,049)
Change in other liabilities		(7,242)	(5,509)
Net cash provided by operating activities		**130,097**	**134,076**
Cash flows from investing activities			
Purchases of investment securities	*6*	(69,479)	(32,276)
Proceeds from sale and redemption of investment securities	*6*	60,124	24,769
Purchases of property and equipment	*9*	(674)	(1,317)
Proceeds from the sale of premises and equipment	*9*	53	1,567
Purchases of intangible assets	*9*	(493)	(930)
Proceeds from sale of intangible assets	*9*	98	302
Net cash used in investing activities		**(10,371)**	**(7,885)**
Cash flows from financing activities			
Proceeds from funds borrowed		172,587	322,227
Repayment of funds borrowed		(278,874)	(373,714)
Dividends paid		-	(50,000)
Net cash used in financing activities		**(106,287)**	**(101,487)**
Effect of net foreign exchange difference on cash and cash equivalents		371	5,684
Net increase in cash and cash equivalents		**13,810**	**30,388**
Cash and cash equivalents at 1 January		99,482	230,776
Cash and cash equivalents at 30 June		**113,292**	**261,164**

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

1. Corporate information

General

Bankpozitif Kredi ve Kalkınma Bankası A.Ş. ("BankPozitif" or "the Bank") was incorporated in Turkey on 9 April 1999 as Toprak Yatırım Bankası A.Ş. as a subsidiary of Toprakbank A.Ş. On 30 November 2001, Toprakbank A.Ş. (the previous parent company) was taken over by the Saving Deposit Insurance Fund ("SDIF"). As a result, SDIF became the controlling shareholder of Toprak Yatırım Bankası A.Ş. C Faktoring A.Ş. acquired 89.92% of the Bank's shares on 1 November 2002 in an auction from SDIF. Following the acquisition, the name of the Bank was changed as C Kredi ve Kalkınma Bankası A.Ş. and the share capital was increased to TL 47,500. C Faktoring A.Ş. and its nominees increased their shareholding to 100% by share capital increases and by purchasing other third party minority shareholders' shares.

Negotiations of the new shareholding structure of the Bank which began in 2005 were finalised and a final share subscription agreement was signed on 13 December 2005. Under this agreement, Bank Hapoalim B.M. ("Bank Hapoalim"), Israel's leading financial group and the largest bank, was to acquire a 57.55% stake in BankPozitif by means of a capital injection to be made through Tarshish-Hapoalim Holdings and Investments Ltd. ("Tarshish"), a wholly-owned subsidiary of Bank Hapoalim.

On 23 December 2005, the name of the Bank was changed as Bankpozitif Kredi ve Kalkınma Bankası A.Ş. Legal approvals have been obtained from Israeli and Turkish authorities in 2006 and Extraordinary General Assembly of the Bank was convened on 31 October 2006 concerning the new partnership.

At the Extraordinary General Assembly meeting held on 31 October 2006, the Bank's share capital was increased by TL 64,396 to TL 111,896 and the share premium amount for the new issued shares paid by Tarshish was decided to be equal to TL 70,701. At the Extraordinary General Assembly meeting held on 15 January 2007 and 17 December 2007, the Bank's share capital was increased from TL 111,896 to TL 278,097.

At the Extraordinary General Assembly meeting held on 25 March 2008, the Bank's share capital was further increased from TL 278,097 to TL 337,292. The share premium amount to be paid by Tarshish for newly issued shares was TL 20,121.

Tarshish acquired 4.825% shares of BankPozitif from C Faktoring A.Ş. on 7 April 2009. After the acquisition of additional shares from C Faktoring A.Ş., Tarshish's share in BankPozitif increased to 69.83%.

As at 30 June 2010, 69.83% (31 December 2009 – 69.83%) of the shares of the Bank belong to Tarshish and are controlled by Bank Hapoalim and 30.17% (31 December 2009 – 30.17%) of the shares belong to C Faktoring A.Ş.

The registered head office address of the Bank is located at Rüzgarlıbahçe Mah. Kayın Sok. No: 3 Yesa Blokları Kavacık 34805 Beykoz – Istanbul / Turkey.

(Currency - In thousands of Turkish Lira)

1. Corporate information *(continued)*

Nature of activities of the Bank / Group

The Bank carries out its activities as corporate and retail banking. The Bank's corporate services mainly include corporate lending, project finance, trade finance and financial leasing. In retail banking, the Bank mainly provides retail lending products such as mortgages, home equity, vehicle and consumer loans to its customers. Apart from lending business, the Bank provides insurance and investment products to its customers. As a non-deposit taking bank, the Bank borrows funds from financial markets and from its counterparties. The Bank's subsidiary; Joint Stock Company BankPozitiv Kazakhstan ("JSC BankPozitiv") is entitled to accept deposit from public. Any deposit related financial information is solely results of the operation of JSC BankPozitiv.

JSC BankPozitiv is a commercial bank and provides general banking services to its clients, accepts deposit, grants cash and non-cash loans, provides broker/dealer services, cash payment and other banking services for its commercial and retail customers through its head office and three branches located in Kazakhstan.

Pozitif Menkul Değerler A.Ş. ("Pozitif Menkul") is involved in intermediary and brokerage activities and also provides corporate finance, initial public offering, advisory, merger and acquisitions, custody and underwriting services to its customers.

On 23 June 2010, the Bank has been agreed with potential purchasers to sell 99% of the issued capital of Pozitif Menkul. Share transfer will be finalized after the approval of Capital Markets Board of Turkey. Purchase price of Pozitif Menkul is determined according to net asset value of Pozitif Menkul.

C Bilişim Teknolojileri ve Telekomünikasyon Hizmetleri A.Ş. ("C Bilişim") is specialised in software development and provides other technological support services to the financial sector including the Bank and its subsidiaries.

Pratic İletişim ve Teknoloji Hizmetleri Ticaret Anonim Şirketi ("Pratic") is a dormant company. The Group's effective shareholding in Pratic is 100% and it is carried at cost less impairment losses. Since Pratic is not operating; the financial statements of Pratic was not included to the accompanying condensed consolidated interim financial statements.

As at 30 June 2010, the Bank provides services through its head office and 3 branches located in Istanbul, Ankara and Izmir. As at 30 June 2010, the number of employees for the Bank and its consolidated subsidiaries are 285 and 250, respectively (31 December 2009 – 263 and 246).

For the purposes of the condensed consolidated interim financial statements, the Bank and its consolidated subsidiaries are referred to as "the Group".

The subsidiaries included in consolidation and effective shareholding percentages of the Group at 30 June 2010 and 31 December 2009 are as follows:

	Place of incorporation	**Principal activities**	**Effective shareholding and voting rights (%)**	
			30 June 2010	**31 December 2009**
Pozitif Menkul	Istanbul/Turkey	Intermediary, brokerage, corporate finance and underwriting activities	99	99
C Bilişim	Istanbul/Turkey	Software development and technology	100	100
JSC BankPozitiv	Almaty/Kazakhstan	Commercial banking activities	100	100

2. Basis of preparation

2.1 Statement of compliance

The condensed consolidated interim financial statements as at 30 June 2010 have been prepared in accordance with International Financial Reporting Standard ("IFRS") IAS 34 Interim Financial Reporting. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2009.

The Bank and its subsidiaries which are incorporated in Turkey maintain their books of account and prepare their statutory financial statements in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law, accounting standards promulgated by the Capital Markets Board of Turkey, Turkish Commercial Code and Tax Legislation. The Bank's foreign subsidiary maintains its books of account and prepares its statutory financial statements in its local currencies and in accordance with the regulations of the country in which it operates.

The condensed consolidated interim financial statements have been prepared from statutory financial statements of the Bank and its subsidiaries and presented in accordance with IFRS in Turkish Lira ("TL") with adjustments and certain reclassifications for the purpose of fair presentation in accordance with IFRS. Such adjustments mainly comprise effects of restatement for the changes in the general purchasing power of TL until 31 December 2005, consolidation of subsidiaries and deferred taxation.

The condensed consolidated interim financial statements as at 30 June 2010 of the Bank are authorised for issue by the management on 5 August 2010. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

2.2 Basis of measurement

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- trading assets at fair value
- available-for-sale financial assets are measured at fair value

2.3 Functional and presentation currency

These condensed consolidated interim financial statements are presented in TL, which is the Bank's functional currency. Except as indicated, financial information presented in TL has been rounded to the nearest thousand.

The restatement for the changes in the general purchasing power of TL until 31 December 2005 is based on International Accounting Standard 29 – Financial Reporting in Hyperinflationary Economies ("IAS 29"). IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and the corresponding figures for previous year be restated in the same terms.

IAS 29 describes the characteristics that may indicate that an economy is hyperinflationary. However, it concludes that it is a matter of judgement when restatement of financial statements becomes necessary. After experiencing hyperinflation in Turkey for many years, as a result of the new economic program, which was launched in late 2001, the three-year cumulative inflation rate dropped below 100% in October 2004. Based on these considerations, restatement pursuant to IAS 29 has been applied until 31 December 2005 and Turkey ceased to be hyperinflationary effective from 1 January 2006.

2. Basis of preparation *(continued)*

2.3 Functional and presentation currency *(continued)*

Restatement of balance sheet and income statement items through the use of a general price index and relevant conversion factors does not necessarily mean that the Group could realise or settle the same values of assets and liabilities as indicated in the condensed consolidated interim balance sheets. Similarly, it does not necessarily mean that the Group could return or settle the same values of equity to its shareholders.

2.4 Use of estimates and judgements

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

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

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the condensed consolidated interim financial statements are as follows;

Key sources of estimation uncertainty

Impairment of available-for-sale equity instruments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In addition, impairment may be appropriate when there is evidence of deterioration in the financial performance of the investee, industry or sector performance, changes in technology and operational and financing cash flows.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 30 June 2010 was TL 38,610 (31 December 2009 – TL 37,193).

Allowances for credit losses

The Group reviews its loan portfolio to assess impairment on a continuous basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and individual loans. All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed. Other evidence for impairment may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Impairment and uncollectibility are measured and recognised individually for loans and receivables that are individually significant, and on a portfolio basis for a group of similar loans and receivables that are not individually identified as impaired. Total carrying value of such loans, advances, finance lease receivables and receivables related with brokerage activities as at 30 June 2010 is TL 1,067,712 (31 December 2009 – TL 1,217,075) net of impairment allowance of TL 53,290 (31 December 2009 – TL 48,491).

2. Basis of preparation *(continued)*

2.4 Use of estimates and judgements *(continued)*

Key sources of estimation uncertainty *(continued)*

Determining fair values

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique. To the extent practical models use only observable data; however, areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. As at 30 June 2010, the carrying amount of derivative financial instrument assets TL 51,275 (31 December 2009 – TL 16,515) and the carrying amount of derivative financial instrument liabilities is TL 17,733 (31 December 2009 – TL 14,500).

Income taxes

The Group is subject to income taxes in Turkey and in Kazakhstan. Significant estimates are required in determining the provision for income taxes. Where there are matters the final tax outcome of which is different from the amounts initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. As at 30 June 2010, the Group does not have any income taxes payable (31 December 2009 – TL 176).

Management records deferred tax assets to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised. The recoverability of the deferred tax assets is reviewed regularly. As at 30 June 2010, the Group carries a net deferred tax assets amounting to TL 1,052 (31 December 2009 – TL 4,504, deferred tax assets).

Employee termination benefits

In accordance with existing social legislation in Turkey, companies in Turkey are required to make lump-sum payments to employees upon termination of their employment based on certain conditions. In calculating the related liability to be recorded in the financial statements for these defined benefit plans, the Group makes assumptions and estimations relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. The carrying value of employee termination benefit provisions as at 30 June 2010 is TL 251 (31 December 2009 – TL 239).

Critical accounting judgements in applying the Group's accounting policies

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

Financial asset and liability classification

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

In classifying financial assets and liabilities as "trading", the Group has determined that it meets the description of trading assets and liabilities set out in accounting policy 3.10.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

The Bank has reclassified restatement effect amounting to TL 1,610 from share capital to retained earnings to confirm with the current period presentation.

3.1 Basis of consolidation

i) Subsidiaries

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

The purchase method of accounting is used for acquired businesses. The purchase method of accounting involves allocating the cost of the business combination to the fair value of assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. The excess of the cost of acquisition over the fair value of Group's share of the identifiable net assets acquired is recorded as goodwill. There is no negative goodwill recognised by the Group.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent Bank, using consistent accounting policies.

(ii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in the preparation of the condensed consolidated interim financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.2 Foreign currency

i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments or a financial liability designated as a hedge of the net investment in a foreign operation (see (iii) below).

(Currency - In thousands of Turkish Lira)

3. Significant accounting policies *(continued)*

3.2 Foreign currency *(continued)*

i) Foreign currency transactions (continued)

Foreign currency translation rates used by the Group are as follows:

	USD / TL (full)	EUR / TL (full)	USD /KZT (full)
30 June 2009	1.5301	2.1469	150.43
31 December 2009	1.5057	2.1603	148.46
30 June 2010	1.5747	1.9217	147.55

ii) Foreign operations

The asset and liabilities of foreign subsidiary are translated into presentation currency of the Group at the rate of exchange ruling at the reporting date. The income statement of foreign subsidiary is translated at the weighted average exchange rates after the acquisition date. On consolidation exchange differences arising from the translation of the net investment in foreign entity are included in equity as currency translation differences.

Foreign currency differences, arising from foreign subsidiary, are recognised in other comprehensive income, under the foreign currency translation reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss, as part of the profit or loss on disposal.

iii) Hedge of net investment in foreign operation

When a derivative (or a non-derivative financial liability) is designated as a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognised in other comprehensive income, under the foreign currency translation reserve. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in other comprehensive income is removed and included in condensed consolidated interim income statement of income on disposal of the foreign operation.

3.3 Interest

Interest income and expense are recognised in the condensed consolidated interim statement of income using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Any interest income and expense arising from currency swaps, cross currency swaps, futures and interest rate options is presented as other interest income and expense in the accompanying condensed consolidated interim financial statements.

3. Significant accounting policies *(continued)*

3.4 Fees and commission

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate of the loan. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction.

Fee for bank transfers and other banking transaction services are recorded as income when collected.

3.5 Net trading income

Net trading income comprises gains less loss related to trading assets and liabilities, and includes all realised and unrealised fair value changes and interest. Any realised or unrealised fair value changes and interest of non-qualifying derivatives, held for risk management purposes, are recorded as foreign exchange gain.

3.6 Dividends

Dividends are recognised when the shareholders' right to receive the payments is established.

3.7 Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the condensed consolidated interim statement of income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of 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 losses can be utilised.

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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.

3. Significant accounting policies *(continued)*

3.8 Financial assets and liabilities

Recognition

The Group recognises a financial asset or financial liability in its statement of financial position when and only when it becomes a party to the contractual provisions of the instrument.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Group does not have any assets where 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 that is recognised to the extent of the Group's continuing involvement in the asset.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

When an existing 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 recognised in the condensed consolidated interim statement of income.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks or rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the balance sheet. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the condensed consolidated interim statement of financial position when, and only when, the Group has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

3. Significant accounting policies *(continued)*

3.8 Financial assets and liabilities *(continued)*

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair value measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models. The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments like interest rate and currency swaps. For these financial instruments, inputs into models are market observable.

Derivative financial instruments

The Group enters into transactions with derivative instruments including forwards, swaps and options in the foreign exchange and capital markets. Most of these derivative transactions are considered as effective economic hedges under the Group's risk management policies; however, since they do not qualify for hedge accounting under the specific provisions of International Accounting Standard 39 – Financial instruments: Recognition and measurement ("IAS 39"), they are treated as derivatives held for trading. Derivative financial instruments are initially recognised at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recognised in condensed consolidated interim statement of income.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, to the extent publicly available, and valuation techniques, including discounted cash flow models and options pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

3. Significant accounting policies *(continued)*

3.8 Financial assets and liabilities *(continued)*

Identification and measurement of impairment

At each reporting date the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;
- 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;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- 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:
  - adverse changes in the payment status of borrowers; or
  - national or local economic conditions that correlate with defaults on the assets in the group

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and advances carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets's carrying amount and estimated recoverable amount. The carrying amount of the asset is reduced through use of an allowance account. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to profit or loss.

3. Significant accounting policies *(continued)*

3.8 Financial assets and liabilities *(continued)*

Identification and measurement of impairment (continued)

When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in other comprehensive income. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

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 legal and regulatory 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 written off are included in the condensed consolidated interim statement of income.

Repurchase and resale transactions

The Group enters into sales of securities under agreements to repurchase such securities. Such securities, which have been sold subject to a repurchase agreement (‘repos’), continue to be recognised in the statement of financial position and are measured in accordance with the accounting policy of the security portfolio which they are part of. Securities sold subject to repurchase agreements (‘repos’) are reclassified in the condensed consolidated interim financial statements as loaned securities when the transferee has the right by contract or custom to sell or repledge the collateral. The counterparty liability for amounts received under these agreements is included in other money market deposits. 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 specified future date (‘reverse repos’) are not recognised in the condensed consolidated interim statement of financial position, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in other money market placements. 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.

3.9 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the condensed consolidated interim statement of financial position.

3.10 Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the condensed consolidated interim statement of financial position with transaction costs taken directly to condensed consolidated interim statement of income. All changes in fair value are recognised as part of net trading income in condensed consolidated interim statement of income. The group did not reclassify any trading assets and liabilities subsequent to their initial recognition.

3. Significant accounting policies *(continued)*

3.11 Due from banks and financial institutions and loans and advances to customers

"Due from banks and financial institutions" and "Loans and advances to customers" are financial assets with fixed or determinable payments and fixed maturities that are not quoted in active market. They are not entered into with the intention of immediate or short-term resale and are not classified as "Financial assets held for trading", designated as "Financial investment – available-for-sale" or "Financial assets designated at fair value through profit or loss". After initial measurement, amounts due from banks and financial institutions and loans and advances to customers are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. The amortisation is included in "Interest income" in the condensed consolidated interim income statement. The losses arising from impairment are recognised in the condensed consolidated interim statement of income in "Net impairment loss on financial assets".

3.12 Investment securities

Investment securities are initially measured at fair value plus incremental direct transaction costs and subsequently accounted for depending on their classification as either held-to-maturity, fair value through profit or loss, or available-for-sale.

Held-to-maturity

Held-to-maturity securities are financial assets with fixed maturities that the Group has the intent and ability to hold until maturity. Investment securities held-to-maturity are initially recognised at cost. Investment securities held-to-maturity are accounted for by using a discounting method based on internal rate of return applied on the net investment amounts after the deduction of provision for impairments. Interest earned on held-to-maturity securities are recognised as interest income and reflected in the consolidated statement of income.

The Parent Bank has sold a significant portion of its securities classified in held-to-maturity portfolio before their maturity in 2010 and accordingly the Group has reclassified all securities in held-to-maturity portfolio as available-for-sale securities. The Group will not be able to classify any financial assets as held-to-maturity for the following two financial years.

Fair value through profit or loss

As at 30 June 2010, the Group does not have any investment securities at fair value through profit or loss (31 December 2009 – none).

Available-for-sale financial investments

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value. Unrealised gains and losses are recognised directly in equity in the "Available-for-sale reserve".

Interest income is recognised in condensed consolidated interim statement of income using the effective interest method. Dividend income is recognised in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in the condensed consolidated interim statement of income.

3. Significant accounting policies *(continued)*

3.12 Investment securities *(continued)*

Available-for-sale financial investments (continued)

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the condensed consolidated interim statement of income, is transferred from condensed consolidated statement of other comprehensive income to the condensed consolidated statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the condensed consolidated interim statement of income. Reversals of impairment losses on debt instruments are reversed through the condensed consolidated interim statement of income; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the condensed consolidated interim statement of income.

Other fair value changes are recognised directly in condensed consolidated statement of other comprehensive income until the investment is sold or impaired and the balance in condensed consolidated statement of other comprehensive income is recognised in condensed consolidated interim statement of income.

3.13 Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in the condensed consolidated interim statement of income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are assigned accordance with the existing statutory tax law.

The estimated useful lives for the current and comparative periods are as follows:

▪ buildings	50 years
▪ office equipment, furniture and fixtures	4-10 years
▪ motor vehicles	5-6 years

Leasehold improvements are depreciated on a straight-line method over a period of time of their lease contract.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

3. Significant accounting policies *(continued)*

3.14 Intangible assets

i) Goodwill

Goodwill arises on the acquisition of subsidiaries or businesses.

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in condensed consolidated interim statement of income.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

ii) Software

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and impairment.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in condensed consolidated interim statement of income on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimate useful lives of software are three to fifteen years and are assigned accordance with the existing statutory tax law.

3.15 Assets held for sale

Assets classified as held for sale are measured at the lower of carrying value and fair value less costs to sell.

3.16 Leases

The Group as lessee

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognised as an expense in the condensed consolidated interim statement of income on a straight-line basis over the lease term.

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 recognised as an expense in the period in which termination takes place.

3. Significant accounting policies *(continued)*

3.16 Leases *(continued)*

Finance leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance charges are charged directly against income. Capitalised leased assets are depreciated over the estimated useful life of the asset.

The Group as lessor

Finance leases

The Group presents leased assets as a receivable equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

3.17 Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. The recoverable amount of goodwill is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in condensed consolidated interim statement of income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.18 Deposits, funds borrowed and debt securities issued

The Bank is not entitled to collect deposits. Its foreign subsidiary is entitled to collect deposit.

Deposits, funds borrowed and debt securities issued are initially measured at fair value plus transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3. Significant accounting policies *(continued)*

3.19 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

3.20 Employee benefits

(i) Reserve for employee severance payments

In accordance with the existing social legislation in Turkey, the Group is required to make certain lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of an agreed formula, are subject to certain upper limits and are recognised in the accompanying condensed consolidated financial statements as accrued. The reserve has been calculated by estimating the present value of the future obligation of the Group that may arise from the retirement of the employees.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

3.21 Fiduciary assets

Assets held by the Group in a fiduciary, agency or custodian capacity for its customers are not included in the condensed consolidated interim statement of financial position, since such items are not treated as assets of the Group.

3.22 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations which are not effective as of 30 June 2010 have not been applied in preparing these financial statements and are not expected to have any impact on the financial statements of the Bank, with the exception of:

IFRS 9 – Financial Instruments which was published on 12 November 2009 as a part of a wider project that aims to bring new regulations to replace IAS 39 – Financial Instruments: Recognition and Measurement.

3. Significant accounting policies *(continued)*

3.22 New standards and interpretations not yet adopted *(continued)*

The objective of IFRS 9, being the first phase of the project, is to establish principles for the financial reporting of financial assets that will present relevant and useful information to users of financial statements for their assessment of amounts, timing and uncertainty of the entity's future cash flows. With IFRS 9 an entity shall classify financial assets as subsequently measured at either amortised cost or fair value on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristic of the financial assets. The guidance in IAS 39 on impairment of financial assets and hedge accounting continues to apply.

An entity shall apply IFRS 9 for annually periods beginning on or after 1 January 2013. An earlier application is permitted. If an entity adopts this IFRS in its financial statements for a period beginning before 1 January 2012, then prior periods do not need to be restated.

(Currency - In thousands of Turkish Lira)

4. Taxation

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey and Kazakhstan.

In Turkey, corporate tax rate is 20%. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts which are calculated and paid are offset against the final corporate tax liability for the year.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years. Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the year-end balance sheet date and taxes must be paid in one instalment by the end of the fourth month.

In Turkey, the tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provision for taxes, as reflected in the condensed consolidated interim balance sheet, has been calculated on a separate-entity basis.

As at 30 June 2010, the corporate tax rate for foreign subsidiary in Kazakhstan is 20% (31 December 2009 – 20%).

As at 30 June 2010 and 31 December 2009, prepaid income taxes are netted off with the current tax liability as stated below:

	30 June 2010	**31 December 2009**
Income tax liability	220	13,008
Prepaid income tax	(220)	(12,832)
Income taxes payable	**-**	**176**

Income tax recognised in the income statement

The components of income tax expense as stated below:

	30 June 2010	**30 June 2009**
Current tax		
Current income tax	(1,560)	(7,870)
Deferred tax		
Relating to origination and reversal of temporary differences	(2,899)	2,567
Income tax expense reported in the income statement	**(4,459)**	**(5,303)**

(Currency - In thousands of Turkish Lira)

4. Taxation *(continued)*

Deferred tax

Movement of net deferred tax assets can be presented as follows:

	30 June 2010	31 December 2009
Deferred tax assets/(liabilities), net at 1 January	4,504	(2,906)
Deferred tax recognised in the income statement	(2,899)	5,560
Deferred income tax recognised in equity	(672)	1,934
Exchange rate differences	119	(84)
Deferred tax assets/(liabilities), net at the end of the period/year	**1,052**	**4,504**

Reflected as:

	30 June 2010	31 December 2009
Deferred tax assets	2,526	4,532
Deferred tax liabilities	(1,474)	(28)

5. Trading assets and liabilities

	30 June 2010	31 December 2009
Debt instruments		
Turkish government bonds-TL denominated	2,075	3,828
Turkish government bills-TL denominated	-	30
Derivative transactions		
Derivative financial instruments	51,275	16,515
Total trading assets	**53,350**	**20,373**

As at 30 June 2010, effective interest rate of Turkish government bonds was 14.67% (31 December 2009 – 15.03% for government bonds and 7.37% for government bills).

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments that include forwards, currency and interest rate swaps, futures, currency options and interest rate options. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices.

The table below shows the favourable (assets) and unfavourable (liabilities) fair values of derivative financial instruments. The notional amount is the amount of a derivative’s underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at period-end and are neither indicative of the market risk nor credit risk.

(Currency - In thousands of Turkish Lira)

5. Trading assets and liabilities *(continued)*

	30 June 2010		
	Fair value assets	**Fair value liabilities**	**Notional amount in TL equivalent**
Derivatives held for trading			
Forward purchase contract	-	15	3,475
Forward sale contract	5	-	3,485
Currency swap purchase	13,819	9,583	560,604
Currency swap sale	37,285	7,936	520,494
Interest rate swap purchase	157	14	31,494
Future purchase contract	9	185	7,125
Future sales contract	-	-	7,297
Option purchase contract	-	-	62,988
Option sale contract	-	-	51,083
Option interest rate purchase contract	-	-	157,470
Asset purchase commitments	-	-	2,015
Asset sales commitments	-	-	2,016
Total derivatives held for trading	**51,275**	**17,733**	**1,409,546**

	31 December 2009		
	Fair value assets	**Fair value liabilities**	**Notional amount in TL equivalent**
Derivatives held for trading			
Forward purchase contract	-	-	432
Forward sale contract	-	-	432
Currency swap purchase	11,080	5,794	638,375
Currency swap sale	4,728	8,655	631,954
Interest rate swap purchase	381	38	75,285
Future purchase contract	326	13	8,113
Future sales contract	-	-	7,797
Option purchase contract	-	-	60,228
Option sale contract	-	-	48,309
Option interest rate purchase contract	-	-	150,570
Asset purchase commitments	-	-	2,080
Asset sales commitments	-	-	2,081
Total derivatives held for trading	**16,515**	**14,500**	**1,625,656**

The Group undertakes all of its transactions in derivative financial instruments with banks and other financial institutions.

(Currency - In thousands of Turkish Lira)

6. Investment securities

	30 June 2010	31 December 2009
Held-to-maturity investment securities	-	42,776
	-	**42,776**
Available-for-sale investment securities	96,271	43,895
Loaned securities	23,946	26,435
	120,217	**70,330**
	120,217	**113,106**

Held-to-maturity investment securities

	30 June 2010		31 December 2009	
	Amount	Effective interest rate	Amount	Effective interest rate
Debt instruments				
Turkish government bonds – TL denominated, net	-	-	31,829	21.48%
- *Gross amount*	-		*31,829*	
- *Impairment on government bonds*	-		-	
Corporate bonds – USD, EUR denominated, net	-	-	10,947	USD-9.25%-28.25% EUR-43.88%
- *Gross amount*	-		*10,947*	
- *Impairment on corporate bonds*	-		-	
Total held-to-maturity investment securities	**-**		**42,776**	

The Parent Bank has sold a significant portion of its securities classified in held-to-maturity portfolio before their maturity in 2010 and accordingly the Group has reclassified all securities in held-to-maturity portfolio as available-for-sale securities. The Group will not be able to classify any financial assets as held-to-maturity for the following two financial years.

The movement in held-to-maturity investment securities is summarised as follows:

	30 June 2010	31 December 2009
Balance at 1 January	42,776	36,221
Additions	-	3,763
Disposals (sale and redemption)	(21,627)	-
Transfer from other portfolios	-	-
Transfer to other portfolios	(14,883)	-
Change in interest accrual	(6,227)	2,825
Exchange rate differences	(39)	(33)
Balance at the end of the period/year end	**-**	**42,776**

(Currency - In thousands of Turkish Lira)

6. Investment securities *(continued)*

Available-for-sale investment securities

	30 June 2010		31 December 2009	
	Amount	**Effective interest rate**	**Amount**	**Effective interest rate**
Available-for-sale investment securities at fair value				
Debt instruments				
Turkish government bonds – TL denominated, net	75,222	13.15%	33,703	12.23%
- *Gross amount*	*75,222*		*33,703*	
- *Impairment on government bonds*	-		-	
Foreign government bonds – KZT denominated, net	7,443	1.00%	10,116	2.00%
- *Gross amount*	*7,443*		*10,116*	
- *Impairment on government bonds*	-		-	
Corporate bonds – USD, EUR denominated, net	13,529	USD-9.25%-28.25% EUR- 32.43%	-	-
- *Gross amount*	*13,529*		-	-
- *Impairment on corporate bonds*	-		-	-
Total available-for-sale securities at fair value	**96,194**		**43,819**	
Available-for-sale investment securities at cost				
Equity instruments – unlisted	77	-	76	-
Total available-for-sale securities	**96,271**		**43,895**	

Carrying value of available-for-sale and trading securities given as collateral under repurchase agreements which are classified as loaned securities and related liability are as follows:

	30 June 2010	**31 December 2009**
Available-for-sale securities	21,692	26,435
Trading securities	2,254	-
Related liability (Note 10)	23,886	23,737

Repurchase agreements mature within one month.

(Currency - In thousands of Turkish Lira)

6. Investment securities *(continued)*

Available-for-sale investment securities *(continued)*

As at 30 June 2010, TL denominated available-for-sale securities comprise Turkish Government floating rate notes ("FRN") and inflation indexed notes having a maturity range of January 2011 - April 2020. As at 30 June 2010, KZT denominated available-for-sale securities comprise a National Bank of the Republic of Kazakhstan bond and have a maturity of July 2010. As at 30 June 2010, USD denominated investment securities comprise corporate bonds with semi-annual coupon payments having maturity range of October 2010 and July 2012 and EUR denominated investment security comprises corporate bond with annual coupon payments having maturity of August 2011.

As at 30 June 2010, available-for-sale investment securities with carrying value of TL 68,755 (31 December 2009 – TL 31,679) are kept in the Central Bank of Turkey and Istanbul Stock Exchange Clearing and Custody Incorporation for legal requirements and as a guarantee for possible stock exchange and money market operations although they are not pledged.

Unlisted equity instruments classified as available-for-sale securities are below:

	30 June 2010	**31 December 2009**
Pratic	49	49
Common shares of Kazakhstan Stock Exchange	23	22
Gelişen İşletme Piyasaları A.Ş.	5	5
	77	**76**

The movement in available-for-sale investment securities (including loaned securities from available-for-sale securities) is summarised as follows:

	30 June 2010	**31 December 2009**
Balance at 1 January	70,330	54,871
Additions	69,479	86,382
Disposals (sale and redemption)	(38,497)	(70,502)
Transfer from other portfolios	14,883	-
Transfer to other portfolios	-	-
Change in interest accrual	1,101	(415)
Exchange rate differences	667	(6)
Balance at end of the period/year end	**117,963**	**70,330**

(Currency - In thousands of Turkish Lira)

7. Loans and advances to customers

	30 June 2010						
	Amount				Effective interest rate		
	Turkish Lira	Foreign currency	Foreign currency indexed	Total	Turkish Lira	Foreign currency	Foreign currency indexed
Corporate loans	135,976	403,025	245,483	784,484	12.33%	USD-7.67%-17.56% EUR-9.90% KZT-16.45%	USD-7.86% EUR-6.63%
Consumer loans[1]	179,343	11,311	62,732	253,386	18.57%	USD-12.77% KZT-18.95%	USD-10.70% EUR-9.62% CHF-7.61% JPY-5.94% GBP-11.28%
Total loans	**315,319**	**414,336**	**308,215**	**1,037,870**			
Loans in arrears				73,815			
Less: Specific reserve for impairment				(36,994)			
Less: Portfolio reserve for impairment				(16,296)			
				1,058,395			

[1] Commercial installment loans amounting TL 6,440 is included in consumer loans.

	31 December 2009						
	Amount				Effective interest rate		
	Turkish Lira	Foreign currency	Foreign currency indexed	Total	Turkish Lira	Foreign currency	Foreign currency indexed
Corporate loans	168,121	430,349	314,779	913,249	14.70%	USD-8.81%-16.54% EUR-10.19% KZT-22.72%	USD-7.57% EUR-8.11%
Consumer loans[1]	177,846	13,557	77,986	269,389	19.43%	USD-13.02% KZT-18.89%	USD-10.82% EUR-9.15% CHF-7.66% JPY-5.93% GBP-11.28%
Total loans	**345,967**	**443,906**	**392,765**	**1,182,638**			
Loans in arrears				72,634			
Less: Specific reserve for impairment				(21,453)			
Less: Portfolio reserve for impairment				(27,038)			
				1,206,781			

[1] Commercial installment loans amounting TL 31,049 is included in consumer loans.

As at 30 June 2010, loans with floating rates are TL 221,108 (31 December 2009 – TL 294,988) and fixed interest rates are TL 816,762 (31 December 2009 – TL 887,650).

(Currency - In thousands of Turkish Lira)

7. Loans and advances to customers *(continued)*

Movements in non-performing loans:

	30 June 2010	31 December 2009
Non-performing loans at 1 January	72,634	21,300
Additions to non-performing loans	9,817	66,939
Recoveries	(8,445)	(10,410)
Transfers to performing loans	-	(5,021)
Write-offs	(554)	(165)
Exchange rate differences	363	(9)
Non performing loans at the end of the period/year	**73,815**	**72,634**

Movements in the reserve for possible loan losses:

	30 June 2010	31 December 2009
Reserve at the beginning of the period/year	48,491	25,050
Provision net of recoveries	4,631	24,457
- *Specific provision for loan impairment*	*16,808*	*17,518*
- *Portfolio provision/(reversal) for loan impairment*	*(11,198)*	*12,394*
- *Recoveries*	*(979)*	*(5,455)*
Loans written-off during the period/year	(522)	(165)
Exchange rate differences	690	(851)
Reserve at the end of the period/year	**53,290**	**48,491**

As at 30 June 2010, loans and advances on which interest is not being accrued, or where interest is suspended amounted to TL 73,815 (31 December 2009 – TL 72,634).

(Currency - In thousands of Turkish Lira)

8. Finance lease receivables

	30 June 2010	31 December 2009
Less than one year	5,600	6,017
Between one and five years	4,769	4,616
Finance lease receivables, gross	**10,369**	**10,633**
Less: Unearned future income on finance leases	(1,645)	(819)
Net investment in finance leases	**8,724**	**9,814**
Finance leases in arrears	-	-
Less: Reserve for impairment	-	-
Less: Portfolio reserve for impairment	-	-
Finance lease receivables, net	**8,724**	**9,814**

The net investment in finance leases comprises:

	30 June 2010	31 December 2009
Less than one year	4,749	5,413
Between one and five years	3,975	4,401
	8,724	**9,814**

As at 30 June 2010, TL 698 of net investment in finance leases is denominated in USD, TL 5,763 of net investment in finance leases is denominated in EUR, TL 1,908 of net investment in finance leases is denominated in TL and TL 355 of net investment in finance leases is denominated in KZT (31 December 2009 – TL 881, TL 8,511 and TL 422 denominated in USD, EUR and KZT, respectively).

As at 30 June 2010, the effective interest rate for finance lease receivables denominated in USD is 8.59%-19.00% (31 December 2009 – 8.52%-19.00%), in EUR 7.93% (31 December 2009 – 7.90%), in TL 18.50% (31 December 2009 – none) and in KZT 17.00% (31 December 2009 – 22.07%).

As at 30 June 2010, finance lease receivables amounting to TL 5,708 (31 December 2009 – TL 8,289) have floating interest rate and remaining TL 3,016 (31 December 2009 – TL 1,525) have fixed interest rates.

9. Property and equipment and intangible assets

During the six-month period ended 30 June 2010, the Group acquired assets with a cost of TL 1,167 and disposed of certain of its property and equipment with a carrying amount of TL 151.

The carrying amount of goodwill at 30 June 2010 was TL 38,610 (31 December 2009 – TL 37,193).

(Currency - In thousands of Turkish Lira)

10. Deposits

Deposits from other banks

	30 June 2010				31 December 2009			
	Amount		Effective interest rate		Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Demand	-	694	-	-	-	580	-	-
Time	-	-	-	-	-	-	-	-
Total	**-**	**694**			**-**	**580**		

Customer deposits

	30 June 2010				31 December 2009			
	Amount		Effective interest rate		Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Retail customers								
Demand	-	6,123	-	-	-	7,462	-	-
Time	-	4,169	-	KZT-9.78% EUR-6.50% USD-5.97%	-	6,279	-	KZT-9.99% EUR-2.40% USD-5.79%
Total	**-**	**10,292**			**-**	**13,741**		
Corporate customers								
Demand	-	20,379	-	-	-	32,430	-	-
Time	-	53,427	-	KZT-1.93%	-	17,909	-	KZT-8.21% USD-2.93%
Total	**-**	**73,806**			**-**	**50,339**		
	-	**84,098**			**-**	**64,080**		

Other money market deposits

	30 June 2010				31 December 2009			
	Amount		Effective interest rate		Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Obligations under repurchase agreements								
Due to customers	23,886	-	6.61%	-	23,737	-	6.56%	-
Istanbul Stock Exchange Settlement and Custody	-	-	-	-	20,704	-	4.03%	-
Total	**23,886**	**-**			**44,441**	**-**		

As at 30 June 2010, other money market deposits of TL 23,886 (31 December 2009 – TL 44,441) have fixed interest rates.

(Currency - In thousands of Turkish Lira)

11. Funds borrowed

	30 June 2010				31 December 2009			
	Amount[1]		Effective interest rate		Amount[1]		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Short-term								
Fixed interest	854	24,039	7.52%	USD-0.31% EUR-4.88%	4,795	115,134	7.67%	USD-2.66% EUR-4.66%
Floating interest	-	37,152	-	EUR-3.91% USD-2.01%	-	57,266	-	USD-3.03% EUR-4.59%
Long-term								
Fixed interest	-	720,978	-	USD-7.28% EUR-4.63%	-	716,302	-	USD-7.28% EUR-4.63%
Floating interest	-	54,316	-	USD-3.21% EUR-3.66%	-	50,137	-	USD-3.83% EUR-3.78%
Total	**854**	**836,485**			**4,795**	**938,839**		

(1) Based on original maturities.

Repayments of long term borrowing are as follows:

	30 June 2010		31 December 2009	
	Floating rate	Fixed rate	Floating rate	Fixed rate
2010	16,023	37,810	25,416	38,737
2011	25,180	-	17,695	-
2012	9,439	218,001	3,513	225,855
2013	3,674	232,111	3,513	225,855
2014	-	233,056	-	225,855
Total	**54,316**	**720,978**	**50,137**	**716,302**

Floating rate borrowings have interest rate repricing periods of 1 to 6 months.

As at 30 June 2010 and 31 December 2009, funds borrowed are unsecured.

As at 30 June 2010 and 31 December 2009, the Group has not had any defaults of principal, interest or redemption amounts or other breaches of loan covenants.

12. Debt securities issued

	30 June 2010	31 December 2009
Debt securities issued at amortised cost	51,663	51,633
Total	**51,663**	**51,633**

Debt securities have a maturity of September 2011 with a 12.03% of fixed interest rate. Securities are issued in accordance with the regulation of Capital Markets Board of Turkey.

(Currency - In thousands of Turkish Lira)

13. Capital and reserves

	30 June 2010	31 December 2009
Number of common shares, TL 0.1 (in full TL), par value (Authorised and issued)	3,372,923,500	3,372,923,500

Share capital and share premium

As at 30 June 2010 and 31 December 2009, the composition of shareholders and their respective percentage of ownership are summarised as follows:

	30 June 2010		31 December 2009	
	Amount	**%**	**Amount**	**%**
Tarshish	235,515	69.83	235,515	69.83
C Faktoring A.Ş.	101,777	30.17	101,777	30.17
	337,292	**100.00**	**337,292**	**100.00**
Share premium	20,121		20,121	
Restatement effect	21,701		21,701	
Share capital and share premium	**379,114**		**379,114**	

There are no rights, preferences and restrictions on the distribution of dividends and the repayment of capital.

Legal reserves

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 profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity'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.

(Currency - In thousands of Turkish Lira)

13. Capital and reserves *(continued)*

Other reserves

Movement in other reserves are as follows:

	Available-for-sale reserve	Foreign currency translation reserve	Total
At 1 January 2009	(1,583)	(35)	(1,618)
Net unrealised loss on available-for-sale financial investments	1,183	-	1,183
Foreign currency translation	-	(10,827)	(10,827)
At 31 December 2009	**(400)**	**(10,862)**	**(11,262)**
At 1 January 2010	(400)	(10,862)	(11,262)
Net unrealised gains on available-for-sale financial investments	(1,026)	-	(1,026)
Foreign currency translation	-	(679)	(679)
At 30 June 2010	**(1,426)**	**(11,541)**	**(12,967)**

Available-for-sale reserve

The available-for-sale reserve includes the cumulative net change in the fair value of available-for-sale investment securities until the investment is derecognised or impaired.

Foreign currency translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the Bank's net investment in foreign operations.

Dividends

The Group did not pay dividends out of the profits for 2009 as at 30 June 2010.

(Currency - In thousands of Turkish Lira)

14. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. The Group is controlled by Bank Hapoalim and C Faktoring A.Ş. which owns 69.83% and 30.17% of ordinary shares, respectively (31 December 2009 – 69.83% and 30.17%, respectively). The ultimate controlling shareholder of the Group is Bank Hapoalim. For the purpose of these condensed consolidated interim financial statements, unconsolidated subsidiaries, shareholders, and companies controlled by Bank Hapoalim and C Faktoring A.Ş. are referred to as related parties.

In the course of conducting its banking business, the Group conducted various business transactions with related parties. These include loans, customer accounts, funds borrowed and non-cash transactions. These are all commercial transactions and realised on an arms-length basis. The volumes of related party transactions, outstanding balances at period-end and relating expense and income for the period are as follows:

	Shareholders		Directors and key management personnel		Others	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Loans						
At 1 January	4,291	-	-	-	-	75
At end of the period/year	4,548	4,291	-	-	-	-
Interest income	256	-	-	-	-	-

As at 30 June 2010, no provisions have been recognised in respect of loans given to related parties (31 December 2009 – none).

	Shareholders		Directors and key management personnel		Others	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Funds borrowed						
At 1 January	82,910	144,387	-	-	117,669	27,305
At end of the period/year	23,665	82,910	-	-	83,690	117,669
Interest expense	708	2,635	-	-	2,107	885

Other balances with related parties:

Related party		**Due from banks**	**Deposits**	**Finance lease receivables**	**Other assets**	**Other liabilities**	**Non-cash loans**
Shareholders	30 June 2010	100	-	-	-	11,275	101,013
	31 December 2009	320	-	-	-	13,205	93,330
Others	30 June 2010	19	694	-	5	276	179
	31 December 2009	120	580	-	6	2,515	-
Directors and key management personnel	30 June 2010	-	55	-	-	57	-
	31 December 2009	-	35	-	-	27	-

(Currency - In thousands of Turkish Lira)

14. Related party disclosures *(continued)*

Transactions with related parties:

Related party		Foreign exchange trading gain/(loss)	Other interest income	Other interest expense	Other operating income	Other operating expense
Shareholders	30 June 2010	1	-	(414)	163	-
	30 June 2009	-	43	(1,085)	97	-
Others	30 June 2010	62	-	(15)	2	-
	30 June 2009	(50)	211	(286)	1	(67)
Directors and key	30 June 2010	-	-	-	-	-
management personnel	30 June 2009	-	-	1	-	-

Compensation of key management personnel of the Group

The executive and non-executive member of Board of Directors and management received remuneration and fees amounted to TL 2,282 (30 June 2009 – TL 2,473) comprising salaries and other short-term benefits.

15. Commitments and contingencies

In the normal course of business activities, the Bank and its subsidiaries undertake various commitments and incur certain contingent liabilities that are not presented in the financial statements including:

	30 June 2010	31 December 2009
Letters of guarantee	444,372	419,729
Letters of credit	53,328	65,024
Other guarantees	-	15,057
Total	**497,700**	**499,810**
Letter of guarantee obtained by subsidiaries from other banks	2,488	2,181
Commitments	1,986	1,479
Total non-cash loans	**502,174**	**503,470**

Operating lease commitments – Group as lessee

The Group has entered into commercial leases on head offices, branch premises and vehicles. These leases have an average life of between 1 and 5 years with renewal option and early termination clauses. There are no restrictions placed upon the lessee by entering into these leases. As at 30 June 2010, the Group has non-cancellable operating lease agreements amounting to TL 3,366 (31 December 2009 – TL 3,595).

Litigation

There were a number of legal proceedings outstanding against the Group as at 30 June 2010 totalling TL 358 (31 December 2009 – TL 472) of which TL 198 (31 December 2009 – TL 198) provision has been made.

15 Commitments and contingencies *(continued)*

Fiduciary activities

The Group provides custody, investment management and advisory services to third parties. Those assets that are held in a fiduciary capacity are not included in these condensed consolidated interim financial statements.

The Group also manages 3 open-ended investment funds (31 December 2009 – 3 open-ended investment funds) which were established under the regulations of the Capital Markets Board of Turkey. In accordance with the funds' charters, the Group purchases and sells securities on behalf of funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations. As at 30 June 2010, total size of investment funds is amounting to TL 1,039 (31 December 2009 – TL 1,920). Management fee and commission income received from investment funds amounted to TL 11 (30 June 2009 – TL 14). As at 30 June 2010, the Group had investment custody accounts amounting to TL 1,289 (31 December 2009 – TL 1,269).

16. Financial risk management

Strategy in using financial instruments

BankPozitif's risk approach is to achieve sound and sustainable low risk profile on consolidated basis, through the identification, measurement and monitoring of all types of risks inherent in the nature of the business activities. The main principle of the Group is to manage the credit risk effectively, to eliminate the market risk by not carrying positions and intelligent handling of operational risks supporting the group in achieving its strategic goals. With this understanding, the Group has given priority to create a risk aware culture in which all functions of the Group understand the risks being exposed; to have well-defined areas of responsibilities; to identify and map the risks and controls of each process and to have prudent procedures for the new products and applications. Following the developments in the international best practices, the Bank has prepared a risk appetite statement. The statement expresses risk appetite of the Bank for different risk categories and puts them in writing in a formal document.

BankPozitif's basic risk classifications and policies can be summarised as follows:

- well managing the credit risk through a high standardised credit risk management,
- minimizing market risk with the avoidance of currency, interest rate and maturity positions,
- identifying, assessing, monitoring and controlling of the operational risks inherent in products, activities, systems and material processes.

In the credit risk management process of the Group, sound risk management practices are targeted in compliance with Basel II recommendations. Internal capital adequacy assessment process calculating the individual capital adequacy ratio of the Bank is in place since 2009. The risk assessment has been undertaken to assess the likelihood and potential impact of internally assessed risk factors together with regulatory risks on the BankPozitif's capital base. Stress and scenario tests are carried out to assess the impact of a down turn in the economy and specific key risk impacts. The process intends to undertake an internal assessment of the Bank's capital needs taking into account the Bank's own risk profile and operating environment

In accordance with the BankPozitif's market risk management strategy; the Group aims not to carry market risk positions and intends to create matching assets and liabilities to eliminate asset liability management risks i.e. maturity risk and interest rate sensitivity risk.

Additionally, in order to minimise the market risk, marketable securities portfolio is limited proportional to the total assets size with a conservative trade limit and most of the securities are floating rate notes.

16. Financial risk management *(continued)*

Board of Directors is the highest authority to set all risk management guidelines, and it is responsible for ensuring that the Group implements all necessary risk management techniques in compliance with the related regulatory requirements both in Turkey and Israel. Board of Directors follows its duties not only by itself but also through audit committee, which is composed of two board members and responsible for the supervision of the efficiency and adequacy of BankPozitif's internal systems, namely internal control, risk management, internal audit and compliance. The audit committee also oversees the proper functioning of these systems and the accounting and reporting systems and is responsible for the integrity of the information produced.

All risk levels are set and approved by the Board of Directors on a regular basis, and it is announced to the organisation.

The main functions and authority of the Board of Directors related to risk management activities are as follows;

- to define the risk policy of the Group, including that of all its subsidiaries, regarding exposure to various risks (credit risks, market risks, operational risks)
- to manage and guide all the activities of internal systems directly/through committees
- to approve new business lines, products or activities that would have a substantial effect on activities of the Group

The Group manages its exposure to all types of risks through the asset and liability management committee ("ALCO") and executive committee, set by Board of Directors and comprising members of senior management, and a representative of main shareholder (board member/consultant of Board of Directors nominated by Bank Hapoalim) and also through limits set on the credit, treasury and asset liability management activities of the Group. These limits are approved and quarterly reviewed by the Board of Directors and the ALCO and executive committee are responsible to monitor and follow up these limits in daily activities.

In summary, in order not to be exposed to liquidity, interest rate and foreign currency risk, the Group aims to keeps its funding structure in line with the asset structure (in terms of currency, maturity and interest rate) and hedges its positions through various derivative transactions. In addition to that, the Group does not prefer speculative positions on currency, interest rate and maturity that might create risk to the Group due to changes in the prices or mismatch of assets and liabilities.

Credit risk

Credit risk refers to the risk that a contractual partner defaults on its contractual obligations or does not deliver in full accordance with the conditions of contract.

As the focus of BankPozitif is defined as credit activities, credits are the most significant part of its activities and thus managed meticulously. BankPozitif follows a strict credit policy which is reviewed and approved by Board of Directors at certain intervals and whenever necessary. The process for approving, amending and renewing is clearly regulated together with collateral requirements. All facilities are assessed prior to approval via a series of evaluation meetings to ensure that the strict criteria laid out in the Group is adhered to regarding the issues like sector, sub-sector, collateral, maturity, project type etc.

To avoid the default risk to the best possible extend, the Group applies a well defined "credit allocation process" and afterwards monitoring of the portfolio is being executed using a number of precautionary actions by relevant functions.

16. Financial risk management *(continued)*

BankPozitif manages its corporate and retail credit portfolio as per following main principles;

Creating credit risk awareness throughout the Group

Senior management is responsible for putting the policies into practice approved by Board of Directors and identifying and managing of credit risk is the joint concern of all staff of the Bank.

The day-to-day management of credit risk is devolved to individual business units, such as the loans and risk monitoring departments of corporate and retail business, which perform regular appraisals of quantitative and qualitative information relating to counterparty credit with respect to their loan policies and procedures.

Having a reliable credit allocation function

Credit approval authorities and their approval limits are also decided by board based on a combination of “rating” and “being new/existing customers” pillars.

Credit approval processes for both retail and corporate loans are centralised, and also retail and corporate loans and risk monitoring departments are organised independently from the sales and marketing departments. The retail and corporate loans and risk monitoring departments do not have any sales targets and are solely responsible for the evaluation and allocation of new loans and monitoring the performance of the loan portfolio. Loans and risk monitoring departments are not included in any phase of the pricing of loans.

All the credit marketing, allocation and follow up stages are defined in corporate and retail loan policies, which are approved and reviewed regularly by the Board of Directors.

Within the light of “no exception policy” applied in the Group, the compliance of loan disbursements with internal and legal regulations are checked by internal control unit prior to disbursement.

Risk limits

There are risk limits, set by the Board of Directors, describing relevant credit limits such as single borrower limit, group exposure limit, sectoral limit, credit approval authorities and their approval limits. Risk limits are determined by comparing Israel and Turkey legislations and the most conservative limitation is taken as benchmark while determining the internal limit.

Although the Bank is not subject to local regulation in terms of credit limits (due to being an investment bank), the Bank set internal credit limits. Single borrower limit is set as 15% (it is lower than the regulatory requirement of 25%) of total equity. In addition to this, a limit for group of borrower is set as 25% of total equity. Internal control and credit departments monitor the compliance with these limits on transaction basis. These limits are applied as 10% and 15% on daily operations, respectively.

Sectoral distribution of loans is monitored on a daily and monthly basis and sectoral analysis of those loans is made in accordance with their risk concentration every year. The Group set a limit on single sector concentration by 20% of total loan book.

In addition to sectoral and borrower limits, the Group has limits on own risk groups’ indebtedness as 10% of total equity and limits on six largest borrowers and group as 135% of total equity.

The Group seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains security when appropriate

As at 30 June 2010, the share of the Group’s receivables from its top 20 credit customers in its total loan portfolio is 35% (31 December 2009 – 37%).

(Currency - In thousands of Turkish Lira)

16. Financial risk management *(continued)*

Measuring risk

The Bank uses two internally developed rating systems i.e. borrower rating system and facility rating system. Borrower rating is the measure of borrower's creditworthiness that is mapped by the Bank to a risk grade and then to a probability of default ("PD"). Facility rating assesses the risk of a facility, taking into account associated collateral and guarantees and provides view for the recovery of the risk. Both systems have been validated by Bank Hapoalim's credit risk modelling department over a set of sample corporate financials/facilities.

Borrower rating system has ten different sets of questions for ten sectors; namely construction, energy, industry, trade, mining, factoring, health and hospital, services, transportation and tourism sectors. The rating system is designed to be in line with Basel II standards. The system has a dual evaluation for companies as qualitative and quantitative section and the company is rated with a rating grade between AAA – D. Rating grades like "AAA", "AA", "A" and "BBB" is evaluated as "high credit worthiness" whereas "BB", "B+" and "B" is evaluated as "acceptable credit worthiness". Ratings of corporate companies are renewed by corporate loans and risk monitoring department of which frequency is determined by borrower rating of the company. Furthermore, risk management department has an independent credit review function to re-evaluate the rating of the company and make recommendations at any time.

The table below shows the concentration of loans, finance lease receivables and non cash portfolio by facility rating:

	30 June 2010	31 December 2009
Above average	39.47%	42.10%
Average	46.09%	44.58%
Below average	14.44%	13.32%
Total	**100.00%**	**100.00%**

Facility rating system has been developed in 2008 and is being used for the corporate loan customers. This module, differently from the internal rating module explained above, rates the transaction instead of the corporate customer and reflects the expected loss amount in case of a default by taking into account collateral types which are subject to coefficients.

Expected loss of credit portfolio is calculated regularly by the Bank. In the calculation, PD values of BankPozitif for each rating category is determined by simulating PD's of an international rating institution to the Bank's rating classes using "central tendency of the Bank" since the Bank is lacking such historical data. Central tendency factor is calculated by correlating sectoral non-performing loans ratios of banking sector to BankPozitif values.

Both rating systems are being used in credit decisions, the first one giving the indications for borrower's repayment capacity, while the second one for facility's repayment capacity.

Regarding to retail business, application scorecards developed by Experian Scorex is being used to evaluate retail customers and a project on developing behavioural scorecards for each customer is being carried out.

Monitoring the risk

Under risk management department, credit review unit is established to make independent review of the credit portfolio (53% of portfolio is reviewed). Credit review unit's functions include the assessment of the quality of the Group's credit portfolio; evaluation of rating credibility and the designated borrowers of the Group, giving the appropriate weight to monitoring problem borrowers and control and monitor the credit risk assessment of its consolidated subsidiaries. The evaluations are independent from the credit approving authorities, and conclude in a credit rating according to AAA-D scale.

(Currency - In thousands of Turkish Lira)

16. Financial risk management *(continued)*

Monitoring the risk (continued)

At certain intervals, foreign currency positions of credit customers are analyzed using certain sensitivity scenarios and indirect credit risk assumed is measured. Risk management department controls structure of portfolio by product type, maturity, sector, geographical concentration, rating, currency, collateral and borrower/group of borrowers. The risk management department also monitors concentration levels of the portfolio using internationally accepted criterion, makes recommendations and reports its findings at appropriate managerial levels. Additionally, it calculates sectoral diversification of the loan portfolio in accordance with Herfindahl-Herschman Concentration Index. Bank’s credit portfolio, either retail or corporate, is monitored through several analysis and stress tests by predetermined scenarios to measure profit or loss and results are reported at appropriate managerial levels.

Segment information by sectoral concentration for cash loans, finance lease receivables and non-cash loans is as follows:

	30 June 2010			
	Cash	**Finance lease receivables**	**Non-cash**	**Total**
Electric production and supply	92,511	-	98,033	190,544
Tourism and entertainment	150,761	3,273	553	154,587
Commercial, mortgage, investment finance banks	-	-	125,367[1]	125,367
Metal and by-products	113,077	506	6,179	119,762
Public works and civil engineering	60,030	-	24,346	84,376
Trade	52,092	-	30,205	82,297
Other financial institutions	42,201	-	36,361	78,562
Other commercial services	61,151	135	6,639	67,925
Building contractor (general and special trade)	58,486	-	6,612	65,098
Manufacture of transport equipments	7,303	-	57,356	64,659
Transportation	4,888	254	47,863	53,005
Personal other services	41,469	99	11,365	52,933
Holding companies	39,368	-	674	40,042
Machinery and equipment	523	-	34,045	34,568
Food, beverage and tobacco industries	12,037	109	3,701	15,847
Electrical and electronic equipment	11,922	-	2,363	14,285
Textile and clothing	9,656	-	1,705	11,361
Agriculture and forestry	2,876	-	6,678	9,554
Non ferrous mineral products	2,276	1,124	153	3,553
Chemical and oil products	1,169	1,846	123	3,138
Mining and quarrying	2,499	-	-	2,499
Rubber and plastic products	1,701	-	-	1,701
Health service	1,285	-	-	1,285
Other consumer loans	245,639	-	1,731	247,370
Others	1,731	1,297	122	3,150
Total performing loans	**1,016,651**	**8,643**	**502,174**	**1,527,468**
Interest accruals	21,219	81	-	21,300
Loans in arrears	73,815	-	-	73,815
Provision for possible loan losses	(53,290)	-	-	(53,290)
Total loans	**1,058,395**	**8,724**	**502,174**	**1,569,293**

[1] TL 19,936 and TL 100,961 of this non-cash exposure has been counter-guaranteed by the Export Import Bank of Korea and Bank Hapoalim, respectively.

(Currency - In thousands of Turkish Lira)

16. Financial risk management *(continued)*

	31 December 2009			
	Cash	**Finance lease receivables**	**Non-cash**	**Total**
Tourism and entertainment	254,791	4,372	371	259,534
Electric production and supply	102,207	-	100,534	202,741
Metal and by-products	109,090	822	18,888	128,800
Commercial, mortgage, investment finance banks	-	-	120,184[1]	120,184
Other commercial services	63,284	157	45,899	109,340
Public works and civil engineering	66,413	-	33,886	100,299
Trade	61,032	-	10,033	71,065
Building contractor (general and special trade)	60,656	-	8,602	69,258
Manufacture of transport equipments	4,862	-	60,202	65,064
Transportation	12,423	320	49,636	62,379
Other financial institutions	31,205	-	8,136	39,341
Non ferrous mineral products	30,866	2,325	807	33,998
Holding companies	30,114	-	1,324	31,438
Personal other services	27,407	102	217	27,726
Machinery and equipment	159	-	22,445	22,604
Electrical and electronic equipment	12,644	-	5,851	18,495
Agriculture and forestry	2,454	-	10,839	13,293
Food, beverage and tobacco industries	8,353	119	3,538	12,010
Textile and clothing	11,197	-	207	11,404
Mining and quarrying	11,313	-	-	11,313
Rubber and plastic products	2,449	-	-	2,449
Health service	1,271	-	285	1,556
Chemical and oil products	512	-	200	712
Other consumer loans	256,078	-	1,240	257,318
Others	2,145	1,524	146	3,815
Total performing loans	**1,162,925**	**9,741**	**503,470**	**1,676,136**
Interest accruals	19,713	73	-	19,786
Loans in arrears	72,634	-	-	72,634
Provision for possible loan losses	(48,491)	-	-	(48,491)
Total loans	**1,206,781**	**9,814**	**503,470**	**1,720,065**

[1] TL 40,090 and TL 3,064 of this non-cash exposure has been counter-guaranteed by the Export Import Bank of Korea and Bank Hapoalim, respectively.

(Currency - In thousands of Turkish Lira)

16. Financial risk management *(continued)*

Total collateralisation coverage of cash and non cash loans are 89% as at 30 June 2010 (31 December 2009 – 92%).

The following table sets out the collateralisation of Bank's cash and non-cash loan portfolio, including finance lease receivables:

	30 June 2010	31 December 2009
Cash loans (including financial lease receivables) under loan in arrears		
Secured by cash	-	-
Secured by mortgages	38,370	43,944
Secured by pledge	15,700	13,764
Secured by guarantee	-	-
Secured by assignment and cheques	4,463	232
Unsecured	15,282	14,694
Total	**73,815**	**72,634**
Cash loans (including financial lease receivables) except loan in arrears		
Secured by cash	750	12,422
Secured by mortgages	679,223	820,343
Secured by pledge	79,162	80,978
Secured by guarantee	155,024	138,715
Secured by assignment and cheques	89,812	82,328
Unsecured	42,623	57,666
Total	**1,046,594**	**1,192,452**
Non-cash loans		
Secured by cash	5,977	7,825
Secured by mortgages	71,831	72,187
Secured by pledge	33,430	21,798
Secured by guarantee	269,364	312,126
Secured by assignment and cheques	-	16,582
Unsecured	121,572	72,952
Total	**502,174**	**503,470**

16. Financial risk management *(continued)*

Liquidity risk

Liquidity risk is the probability of loss arising from a bank's inability to meet its obligations when they come due without incurring unacceptable losses. Liquidity risk includes (1) the inability to manage unplanned decreases or changes in funding sources (2) the failure to recognise or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

In order to manage this risk, the Group measures and manages its cash flow commitments on a daily basis, and maintains liquid assets, which it judges sufficient to meet its commitments. There are risk limits set for liquidity risks as; ratio of total assets maturing within 1 month to total liabilities maturing within 1 month can not be lower than 100% (It is set as 80% for foreign currency assets to liabilities). ALCO closely monitors daily, weekly and monthly liquidity position of the Bank and has the authority to take actions where necessary.

The Group uses various methods, including predictions of daily cash positions, and scenario analysis to monitor and manage its liquidity risk to avoid undue concentration of funding requirements at any point in time or from any particular source. Risk management and treasury departments monitor daily liquidity gaps in all currencies.

Liquidity position of the Group is measured on monthly basis with three scenarios i.e. global scenario, local scenario and bank specific scenario which are run on TL positions, foreign currency positions and on a total basis. The scenarios aim to show the repayment capacity of the Group using only quasi cash assets against the liabilities of 1 month and 1 year periods. Since the Group has funding centred asset creating structure, the Group does not prefer to take any liquidity risk (monitored cumulatively) in any currency, in any point in any time as decided by the top management of the Group.

Generally, the Bank does not prefer to utilise liquidity from Interbank money markets and is in a net lender position in Interbank money markets.

The table on the next page analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at balance sheet date to contractual maturity date.

(Currency - In thousands of Turkish Lira)

16. Financial risk management *(continued)*

As at 30 June 2010	On demand[1]	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Unallocated	Total
Assets												
Cash and balances with central banks	47,871	52,303	-	-	-	-	-	-	-	-	-	100,174
Due from banks and financial institutions	7,877	2,409	60	-	221	-	-	-	-	-	-	10,567
Interbank and other money market placements	2,827	-	-	-	-	-	-	-	-	-	-	2,827
Reserve deposits at central banks	-	90,068	-	-	-	-	-	-	-	-	-	90,068
Trading assets	-	3,518	2,279	2,713	3,651	11,893	15,852	9,354	1,650	2,440	-	53,350
Investment securities	-	40	8,011	6,325	15	18,496	9,051	33,133	20,092	1,031	77	96,271
Loaned securities	-	-	348	310	-	-	-	3,591	7,547	12,150	-	23,946
Receivables from customers due to brokerage activities	-	593	-	-	-	-	-	-	-	-	-	593
Loans and advances to customers	-	184,353	61,703	76,658	125,254	193,588	111,775	81,332	129,145	57,766	36,821	1,058,395
Finance lease receivables	-	285	615	897	2,952	2,378	639	520	438	-	-	8,724
Property and equipment	-	-	-	-	-	-	-	-	-	-	12,524	12,524
Intangible assets	-	-	-	-	-	-	-	-	-	-	45,571	45,571
Deferred tax assets	-	-	-	-	-	-	-	-	-	-	2,526	2,526
Other assets	-	4,858	-	-	-	-	-	-	-	-	19,188	24,046
Total assets	**58,575**	**338,427**	**73,016**	**86,903**	**132,093**	**226,355**	**137,317**	**127,930**	**158,872**	**73,387**	**116,707**	**1,529,582**
Liabilities												
Deposit from other banks[2]	694	-	-	-	-	-	-	-	-	-	-	694
Customer deposits[2]	26,501	52,394	969	1,136	1,441	1,633	5	19	-	-	-	84,098
Other money market deposits	23,886	-	-	-	-	-	-	-	-	-	-	23,886
Trading liabilities	-	3,719	6,987	1,183	532	3,544	582	792	394	-	-	17,733
Funds borrowed	-	43,178	43,795	15,453	21,144	243,091	235,785	1,837	233,056	-	-	837,339
Debt securities issued	-	-	1,663	-	-	50,000	-	-	-	-	-	51,663
Other liabilities	12,371	43,524	775	4,624	-	5,777	-	-	918	-	2,534	70,523
Provisions	-	-	-	-	1,198	-	-	-	-	-	1,320	2,518
Current tax liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	1,474	1,474
Total liabilities	**63,452**	**142,815**	**54,189**	**22,396**	**24,315**	**304,045**	**236,372**	**2,648**	**234,368**	**-**	**5,328**	**1,089,928**
Net liquidity gap	**(4,877)**	**195,612**	**18,827**	**64,507**	**107,778**	**(77,690)**	**(99,055)**	**125,282**	**(75,496)**	**73,387**	**111,379**	

[1] Includes overnight balances.

[2] Figures represent the foreign subsidiary's deposit balances.

(Currency - In thousands of Turkish Lira)

16. Financial risk management *(continued)*

31 December 2009	On demand[(1)]	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Unallocated	Total
Assets												
Cash and balances with central banks	39,136	14,200	-	-	-	-	-	-	-	-	-	53,336
Due from banks and financial institutions	18,855	5,991	10	211	440	-	-	-	-	-	-	25,507
Interbank and other money market placements	23,559	-	-	-	-	-	-	-	-	-	-	23,559
Reserve deposits at central banks	1,501	84,532	-	-	-	-	-	-	-	-	-	86,033
Trading assets	-	1,010	2,344	37	65	145	10,410	5,291	409	662	-	20,373
Investment securities	-	3,372	9,746	561	10,362	9,396	36,927	4,208	11,023	1,000	76	86,671
Loaned securities	-	-	1,583	-	2,701	6,848	-	7,000	8,303	-	-	26,435
Receivables from customers due to brokerage activities	-	480	-	-	-	-	-	-	-	-	-	480
Loans and advances to customers	-	182,125	53,350	71,178	171,364	204,638	136,597	94,615	152,795	88,938	51,181	1,206,781
Finance lease receivables	-	1,423	1,047	1,229	1,715	3,817	583	-	-	-	-	9,814
Property and equipment	-	-	-	-	-	-	-	-	-	-	13,810	13,810
Intangible assets	-	-	-	-	-	-	-	-	-	-	45,103	45,103
Deferred tax assets	-	-	-	-	-	-	-	-	-	-	4,532	4,532
Other assets	-	7,689	-	-	-	-	-	-	-	-	18,128	25,817
Total assets	**83,051**	**300,822**	**68,080**	**73,216**	**186,647**	**224,844**	**184,517**	**111,114**	**172,530**	**90,600**	**132,830**	**1,628,251**
Liabilities												
Deposit from other banks[(2)]	580	-	-	-	-	-	-	-	-	-	-	580
Customer deposits[(2)]	39,892	13,905	1,559	1,156	6,553	1,010	4	1	-	-	-	64,080
Other money market deposits	44,441	-	-	-	-	-	-	-	-	-	-	44,441
Trading liabilities	-	1,237	2,802	2,145	3,388	2,535	671	567	1,155	-	-	14,500
Funds borrowed	-	60,655	12,059	87,131	81,501	17,695	229,369	229,369	225,855	-	-	943,634
Debt securities issued	-	-	1,633	-	-	50,000	-	-	-	-	-	51,633
Other liabilities	19,200	33,560	2,716	8,303	-	-	-	-	12,387	-	3,188	79,354
Provisions	-	2,199	-	-	198	-	-	-	-	-	1,206	3,603
Current tax liabilities	-	-	176	-	-	-	-	-	-	-	-	176
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	28	28
Total liabilities	**104,113**	**111,556**	**20,945**	**98,735**	**91,640**	**71,240**	**230,044**	**229,937**	**239,397**	**-**	**4,422**	**1,202,029**
Net liquidity gap	**(21,062)**	**189,266**	**47,135**	**(25,519)**	**95,007**	**153,604**	**(45,527)**	**(118,823)**	**(66,867)**	**90,600**	**128,408**	

(1) Includes overnight balances.

(2) Figures represent the foreign subsidiary's deposit balances.

(Currency - In thousands of Turkish Lira)

16. Financial risk management *(continued)*

The table below analyses residual contractual maturities of liabilities:

As at 30 June 2010	Carrying amount	Gross outflow	On demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Deposit from other banks	694	694	694	-	-	-	-	-
Customer deposits	84,098	84,243	26,501	52,405	979	2,611	1,747	-
Interbank and other money market deposits	23,886	23,886	-	23,886	-	-	-	-
Funds borrowed	837,339	996,806	-	43,663	46,442	82,433	824,268	-
Debt securities issued	51,663	59,024	-	-	3,008	3,008	53,008	-
Current account of loan customers[1]	40,694	41,510	12,371	16,337	777	4,675	7,350	-
	1,038,374	**1,206,163**	**39,566**	**136,291**	**51,206**	**92,727**	**886,373**	**-**

[1] Included in other liabilities.

As at 31 December 2009	Carrying amount	Gross outflow	On demand	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years
Deposit from other banks	580	580	580	-	-	-	-	-
Customer deposits	64,080	64,252	39,892	13,905	1,570	7,820	1,065	-
Interbank and other money market deposits	44,441	44,467	-	44,467	-	-	-	-
Funds borrowed	943,634	1,123,630	-	60,780	14,818	215,111	832,921	-
Debt securities issued	51,633	62,164	-	-	3,041	3,041	56,082	-
Current account of loan customers[1]	61,535	62,845	19,200	19,445	2,285	8,388	13,527	-
	1,165,903	**1,357,938**	**59,672**	**138,597**	**21,714**	**234,360**	**903,595**	**-**

[1] Included in other liabilities.

The table below analyses contractual maturities of derivative transactions:

As at 30 June 2010	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Assets							
Forward purchase contract	3,475	-	-	-	-	-	3,475
Forward sale contract	3,485	-	-	-	-	-	3,485
Currency swap purchase	93,639	88,380	22,394	33,602	310,054	12,535	560,604
Currency swap sale	94,298	89,738	19,835	30,096	276,438	10,089	520,494
Interest rate swap purchase	-	-	-	-	31,494	-	31,494
Future purchase contract	-	7,125	-	-	-	-	7,125
Future sales contract	-	7,297	-	-	-	-	7,297
Option purchase contract	-	-	-	-	62,988	-	62,988
Option sale contract	-	-	-	-	51,083	-	51,083
Option interest rate purchase contract	-	-	-	-	157,470	-	157,470
Asset purchase commitments	-	-	-	1,102	913	-	2,015
Asset sales commitments	-	-	-	913	1,103	-	2,016
	194,897	**192,540**	**42,229**	**65,713**	**891,543**	**22,624**	**1,409,546**

As at 31 December 2009	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Total
Assets							
Forward purchase contract	432	-	-	-	-	-	432
Forward sale contract	432	-	-	-	-	-	432
Currency swap purchase	102,191	126,339	20,762	44,225	329,238	15,620	638,375
Currency swap sale	102,845	128,325	21,398	45,483	319,107	14,796	631,954
Interest rate swap purchase	-	-	-	-	75,285	-	75,285
Future purchase contract	-	8,113	-	-	-	-	8,113
Future sales contract	-	7,797	-	-	-	-	7,797
Option purchase contract	-	-	-	-	60,228	-	60,228
Option sale contract	-	-	-	-	48,309	-	48,309
Option interest rate purchase contract	-	-	-	-	150,570	-	150,570
Asset purchase commitments	-	-	-	-	2,080	-	2,080
Asset sales commitments	-	-	-	-	2,081	-	2,081
	205,900	**270,574**	**42,160**	**89,708**	**986,898**	**30,416**	**1,625,656**

16. Financial risk management *(continued)*

Market risk

The Group has low risk appetite towards products which are subject to market risks. Market risks arise from open positions in interest rate, currency and equity/commodity prices, all of which are exposed to general and specific market movements.

The interest rate and exchange rate risks of the financial positions taken by the Bank related to balance sheet and off-balance sheet accounts are measured and while calculating the capital adequacy, the amount subject to value at risk (VaR) is taken into consideration by the standard method. As at 30 June 2010, the highest potential loss of the securities portfolio was generated by historical simulation method as TL 922 (31 December 2009 – TL 79) for one day.

The Group has the principle not to carry equity/commodity portfolios which may cause losses based on the price changes.

The Group has a cautious approach towards derivatives transactions. In principle, derivatives are dealt only for the hedging of banking book. Trade or “market-making” in financial derivative instruments is not among the ordinary activities of the Group and possible only by specific authorization of the Board of Directors and subject to VaR limits as well as stress scenarios.

The Board of Directors of the Bank determines the risk limits for primary risks carried by the Bank and quarterly revises these limits. For the purpose of hedging market risk, the Bank primarily aims to balance the foreign currency position, create matching assets and liabilities and manage positive liquidity.

Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign currency risk indicates the possibility of the potential losses that the Group is subject to due to the exchange rate movements in the market. The Group does not prefer to carry foreign currency risk and holds foreign currency asset and liability items together with derivatives in balance against the foreign currency risk.

The Group manages foreign currency risk by daily controls of financial planning and control department and treasury department; weekly ALCO meetings, comprising members of senior management of the Bank and through limits on the positions which can be taken by the Bank’s treasury department

The foreign exchange position of the group does not include the net income / (loss) of the foreign subsidiary which is actually in KZT. Had the group included TL (10,116) of net loss of JSC BankPozitiv (31 December 2009 - TL (10,781)), net foreign exchange position of the group would have been TL 761 (31 December 2009 - TL (1,222)).

(Currency - In thousands of Turkish Lira)

16. Financial risk management *(continued)*

The concentrations of assets, liabilities and off balance sheet items are as follows:

As at 30 June 2010	USD	EUR	CHF	JPY	KZT	Others	Total
Assets							
Cash and balances with central banks	18,878	569	1	-	80,632	52	100,132
Due from banks and financial institutions	6,748	1,988	255	145	3	230	9,369
Reserve deposits at central Banks	83,690	-	-	-	1,532	-	85,222
Trading assets	1,075	-	-	-	-	-	1,075
Investment securities	7,564	5,965	-	-	7,466	-	20,995
Loans and advances due to customers[(1)]	414,246	251,692	28,926	9,572	17,697	123	722,256
Finance lease receivables	698	5,763	-	-	355	-	6,816
Property and equipment	-	-	-	-	5,950	-	5,950
Intangible assets	38,610	-	-	-	1,230	-	39,840
Deferred tax assets	-	-	-	-	2,187	-	2,187
Other assets	9,434	110	48	7	8,489	277	18,365
Total assets	**580,943**	**266,087**	**29,230**	**9,724**	**125,541**	**682**	**1,012,207**
Liabilities							
Deposit from other banks[(2)]	500	50	-	-	140	4	694
Customer deposits[(2)]	8,651	1,430	-	-	73,935	82	84,098
Trading liabilities	1,780	302	-	-	-	-	2,082
Funds borrowed	740,541	95,944	-	-	-	-	836,485
Other liabilities[(3)]	5,376	23,223	100	15	1,032	5	29,751
Provisions	-	-	-	-	47	-	47
Total liabilities	**756,848**	**120,949**	**100**	**15**	**75,154**	**91**	**953,157**
Gross exposure	**(175,905)**	**145,138**	**29,130**	**9,709**	**50,387**	**591**	**59,050**
Off-balance sheet position							
Net notional amount of derivatives	**115,851**	**(144,956)**	**(29,122)**	**(9,734)**	**-**	**(444)**	**(68,405)**
Net exposure[(4)]	**(60,054)**	**182**	**8**	**(25)**	**50,387**	**147**	**(9,355)**

(1) Foreign currency net non-performing loans and advances to customer amounting TL (295) is included at foreign currency position.

(2) Figures represent the foreign subsidiary's deposit balances.

(3) Currency translation gain / (loss) regarding the accounting of foreign subsidiary, JSC BankPozitiv, amounting TL (11,541) was included at foreign currency position.

(4) The Bank has a USD-KZT money option agreement amounting to USD 40 million in order to hedge its short position in USD and long position in KZT.

(Currency - In thousands of Turkish Lira)

16. Financial risk management *(continued)*

Currency risk *(continued)*

31 December 2009	USD	EUR	CHF	JPY	KZT	Others	Total
Assets							
Cash and balances with central banks	17,515	123	1	-	35,632	20	53,291
Due from banks and financial institutions	18,647	4,295	309	151	3	954	24,359
Reserve deposits at central Banks	79,934	-	-	-	1,501	-	81,435
Trading assets	743	-	-	-	-	-	743
Investment securities	7,817	3,130	-	-	10,138	-	21,085
Loans and advances due to customers[(1)]	468,122	292,472	37,323	9,625	23,280	129	830,951
Finance lease receivables	881	8,511	-	-	422	-	9,814
Property and equipment	-	-	-	-	6,165	-	6,165
Intangible assets	36,918	-	-	-	1,297	-	38,215
Deferred tax assets	-	-	-	-	2,272	-	2,272
Other assets	12,151	68	56	-	9,268	336	21,879
Total assets	**642,728**	**308,599**	**37,689**	**9,776**	**89,978**	**1,439**	**1,090,209**
Liabilities							
Deposit from other banks[(2)]	406	37	-	-	94	43	580
Customer deposits[(2)]	17,572	3,650	-	-	42,472	386	64,080
Trading liabilities	657	324	-	-	-	-	981
Funds borrowed	808,400	130,439	-	-	-	-	938,839
Other liabilities[(3)]	29,099	4,612	115	27	826	2	34,681
Provisions	-	-	-	-	98	-	98
Total liabilities	**856,134**	**139,062**	**115**	**27**	**43,490**	**431**	**1,039,259**
Gross exposure	**(213,406)**	**169,537**	**37,574**	**9,749**	**46,488**	**1,008**	**50,950**
Off-balance sheet position							
Net notional amount of derivatives	154,638	(169,443)	(37,952)	(9,748)	-	(448)	(62,953)
Net exposure[(4)]	**(58,768)**	**94**	**(378)**	**1**	**46,488**	**560**	**(12,003)**

(1) Foreign currency net non-performing loans and advances to customer amounting TL (5,720) is included at foreign currency position.

(2) Figures represent the foreign subsidiary's deposit balances.

(3) Currency translation gain / (loss) regarding the accounting of foreign subsidiary, JSC BankPozitiv, amounting TL (10,862) was included at foreign currency position.

(4) The Bank has a USD-KZT money option agreement amounting to USD 40 million in order to hedge its short position in USD and long position in KZT.

The following significant exchange rates applied during the period / year:

	Average rate		Reporting rate	
	30 June 2010	**31 December 2009**	**30 June 2010**	**31 December 2009**
USD/TL	1.5704	1.5459	1.5747	1.5057
EUR/TL	1.9191	2.1509	1.9217	2.1603
TL/KZT	0.0103	0.0101	0.0107	0.0101

(Currency - In thousands of Turkish Lira)

16. Financial risk management *(continued)*

Currency risk *(continued)*

Sensitivity analysis

A 10% weakening of TL against the foreign currencies at 30 June 2010 and 31 December 2009 would have effect on the equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009.

30 June 2010	Equity	Profit or loss
USD	(4,994)	(4,994)
EUR	18	18
Other currencies	5,052	5,052
	76	**76**

31 December 2009	Equity	Profit or loss
USD	(4,798)	(4,798)
EUR	9	9
Other currencies	4,667	4,667
	(122)	**(122)**

A 10% strengthening of the TL against the foreign currencies at 30 June 2010 and 31 December 2009 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of change in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of change in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flows.

The Group mainly funds its TL assets through its shareholders’ equity and is not exposed to interest rate risk in TL assets and liabilities. Foreign currency assets of the Group give rise to interest rate risk as a result of mismatches or gaps in the amounts of foreign currency assets and liabilities and that mature or reprice in a given period. The Group prefers to protect itself from the effects created by the interest rate volatility and to have a match in interest rate risk. Interest rate sensitivity of the Bank is measured and monitored by duration analysis and PV01 analysis by risk management and financial planning and control departments accompanied by an interest sensitive gap representation to illustrate the negative and positive amounts of relevant time buckets.

The Group manages interest rate risk by the ALCO under the supervision of Board of Directors. The Group does not aim to generate income from the mismatch of interest rate sensitive assets and liabilities nor make losses. Therefore the main objective of interest rate management is to eliminate interest rate sensitivity risk by creating matching assets and liabilities. In case of need, the Group utilises interest rate cap/floor agreements, interest rate swaps and setting limits on the positions, which can be taken by the Group’s credit and treasury divisions to hedge the interest rate sensitivity of the Group.

(Currency - In thousands of Turkish Lira)

16. Financial risk management *(continued)*

The table below summarises the Group's exposure to interest rate risk on the basis of the remaining period at the balance sheet date to the repricing date:

As at 30 June 2010	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Non interest bearing	Total
Assets											
Cash and balances with central banks	52,303	-	-	-	-	-	-	-	-	47,871	100,174
Due from banks and financial institutions	2,509	60	-	221	-	-	-	-	-	7,777	10,567
Interbank and other money market placements	2,827	-	-	-	-	-	-	-	-	-	2,827
Reserve deposits at central banks	90,068	-	-	-	-	-	-	-	-	-	90,068
Trading assets	3,518	3,176	3,883	3,651	11,893	15,773	7,673	1,470	2,313	-	53,350
Investment securities	2,831	46,754	35,914	-	4,947	5,748	-	-	-	77	96,271
Loaned securities	-	8,489	15,457	-	-	-	-	-	-	-	23,946
Receivables from customers due to brokerage activities	593	-	-	-	-	-	-	-	-	-	593
Loans and advances to customers	254,452	126,889	70,880	94,806	142,038	91,714	70,098	117,348	53,349	36,821	1,058,395
Finance lease receivables	160	4,974	1,006	423	683	520	520	438	-	-	8,724
Property and equipment	-	-	-	-	-	-	-	-	-	12,524	12,524
Intangible assets	-	-	-	-	-	-	-	-	-	45,571	45,571
Deferred tax assets	-	-	-	-	-	-	-	-	-	2,526	2,526
Other assets	31	-	-	-	-	-	-	-	-	24,015	24,046
Total assets	**409,292**	**190,342**	**127,140**	**99,101**	**159,561**	**113,755**	**78,291**	**119,256**	**55,662**	**177,182**	**1,529,582**
Liabilities											
Deposit from other banks[1]	-	-	-	-	-	-	-	-	-	694	694
Customer deposits[1]	52,394	969	1,136	1,441	1,633	5	19	-	-	26,501	84,098
Other money market deposits	23,886	-	-	-	-	-	-	-	-	-	23,886
Trading liabilities	3,719	6,970	1,202	532	3,544	580	792	394	-	-	17,733
Funds borrowed	76,051	59,197	18,923	-	218,001	232,111	-	233,056	-	-	837,339
Debt securities issued	-	1,663	-	-	50,000	-	-	-	-	-	51,663
Other liabilities	18,749	765	4,694	-	5,777	-	-	918	-	39,620	70,523
Provisions	-	-	-	-	-	-	-	-	-	2,518	2,518
Current tax liabilities	-	-	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	1,474	1,474
Total liabilities	**174,799**	**69,564**	**25,955**	**1,973**	**278,955**	**232,696**	**811**	**234,368**	**-**	**70,807**	**1,089,928**
Balance sheet interest sensitivity gap	**234,493**	**120,778**	**101,185**	**97,128**	**(119,394)**	**(118,941)**	**77,480**	**(115,112)**	**55,662**	**106,375**	
Off-balance sheet interest sensitivity gap, net	30,829	30,137	(60,429)	3,508	(7,143)	(15,964)	(7,378)	64,094	2,446	-	
Total interest sensitivity gap	**265,322**	**150,915**	**40,756**	**100,636**	**(126,537)**	**(134,905)**	**70,102**	**(51,018)**	**58,108**	**106,375**	

(1) Figures represent the foreign subsidiary's deposit balances.

(Currency - In thousands of Turkish Lira)

16. Financial risk management *(continued)*

31 December 2009	Up to 1 month	1 to 3 months	3 to 6 months	6 months to 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Non interest bearing	Total
Assets											
Cash and balances with central banks	14,200	-	-	-	-	-	-	-	-	39,136	53,336
Due from banks and financial institutions	13,612	9	-	-	-	-	-	-	-	11,886	25,507
Interbank and other money market placements	23,559	-	-	-	-	-	-	-	-	-	23,559
Reserve deposits at central banks	84,532	-	-	-	-	-	-	-	-	1,501	86,033
Trading assets	1,010	2,344	37	65	145	10,410	5,291	409	662	-	20,373
Investment securities	6,178	29,622	40,045	1,922	2,641	6,187	-	-	-	76	86,671
Loaned securities	-	26,435	-	-	-	-	-	-	-	-	26,435
Receivables from customers due to brokerage activities	480	-	-	-	-	-	-	-	-	-	480
Loans and advances to customers	284,147	147,378	56,117	125,306	133,313	99,687	76,125	144,396	89,131	51,181	1,206,781
Finance lease receivables	190	5,651	2,935	367	592	79	-	-	-	-	9,814
Property and equipment	-	-	-	-	-	-	-	-	-	13,810	13,810
Intangible assets	-	-	-	-	-	-	-	-	-	45,103	45,103
Deferred tax assets	-	-	-	-	-	-	-	-	-	4,532	4,532
Other assets	-	-	-	-	-	-	-	-	-	25,817	25,817
Total assets	**427,908**	**211,439**	**99,134**	**127,660**	**136,691**	**116,363**	**81,416**	**144,805**	**89,793**	**193,042**	**1,628,251**
Liabilities											
Deposit from other banks[1]	-	-	-	-	-	-	-	-	-	580	580
Customer deposits[1]	13,905	1,559	1,156	6,553	1,010	4	1	-	-	39,892	64,080
Other money market deposits	44,441	-	-	-	-	-	-	-	-	-	44,441
Trading liabilities	1,237	2,802	2,145	3,388	2,535	671	567	1,155	-	-	14,500
Funds borrowed	84,158	80,202	38,687	55,493	7,529	225,855	225,855	225,855	-	-	943,634
Debt securities issued	-	-	1,633	-	50,000	-	-	-	-	-	51,633
Other liabilities	20,714	2,690	8,303	-	-	-	-	12,387	-	35,260	79,354
Provisions	-	-	-	-	-	-	-	-	-	3,603	3,603
Current tax liabilities	-	-	-	-	-	-	-	-	-	176	176
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	28	28
Total liabilities	**164,455**	**87,253**	**51,924**	**65,434**	**61,074**	**226,530**	**226,423**	**239,397**	**-**	**79,539**	**1,202,029**
Balance sheet interest sensitivity gap	**263,453**	**124,186**	**47,210**	**62,226**	**75,617**	**(110,167)**	**(145,007)**	**(94,592)**	**89,793**	**113,503**	
Off-balance sheet interest sensitivity gap, net	30,750	78,694	(13,935)	(88,446)	(1,563)	(286)	(81)	466	822	-	
Total interest sensitivity gap	**294,203**	**202,880**	**33,275**	**(26,220)**	**74,054**	**(110,453)**	**(145,088)**	**(94,126)**	**90,615**	**113,503**	

(1) Figures represent the foreign subsidiary's deposit balances.

(Currency - In thousands of Turkish Lira)

16. Financial risk management *(continued)*

The Bank's value at market risks as of 30 June 2010 and 31 December 2009 calculated as per the statutory financial statements prepared for BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 26333 dated 1 November 2006, are as follows:

	30 June 2010			**31 December 2009**		
	Average	**Highest**	**Lowest**	**Average**	**Highest**	**Lowest**
Interest rate risk	7,592	7,816	7,374	5,356	9,194	1,757
Common share risk	-	-	-	-	-	-
Currency risk	807	1,292	402	822	1,481	147
Total value-at-risk	**8,399**	**9,108**	**7,776**	**6,178**	**10,675**	**1,904**

Exposure to interest rate risk – non-trading portfolios

Interest rate sensitivity of the banking book is subject to limits which are (1) 100 bps parallel shift of yield curves and (2) worst case shifts of yield curves which refer to parallel and non parallel (flattening and steepening) shift of TL (500 bps) and foreign currency (200 bps) yield curves. Limits are determined on ALCO and Board of Directors levels and subject to Board of Directors monthly review.

Change at portfolio value (%)	**30 June 2010**	**31 December 2009**
Local TL interest rate		
+100 bps	(0.71)	(0.60)
-100 bps	0.75	0.63
+500 bps	(3.24)	(2.73)
Foreign currency interest rate		
+100 bps	1.03	0.60
-100 bps	(1.24)	(0.87)

Capital adequacy

To monitor the adequacy of its capital, the Group uses ratios established by BRSA. These ratios measure capital adequacy (minimum 8% as required by Banking Law) by comparing the Group's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. The Regulatory capital and the capital adequacy ratio declared by the Group as 30 June 2010 and 31 December 2009 are as follows:

	30 June 2010	**31 December 2009**
Amount subject to credit risk (I)	1,204,430	1,257,351
Amount subject to market risk (II)	176,688	186,400
Amount subject to operational risk (III)	210,963	134,925
Total risk-weighted assets and value at market risk and operational risk (IV) = (I+II+II)	**1,592,081**	**1,578,676**
Shareholders' equity	392,092	385,832
Tier 1 capital	411,763	398,031
Tier 2 capital	-	-
Deductions from capital	(19,671)	(12,199)
Total regulatory capital	**392,092**	**385,832**
Capital adequacy ratio	**24.63%**	**24.44%**
Tier-1 ratio	**25.86%**	**25.21%**

(Currency - In thousands of Turkish Lira)

17. Rating

As at 30 June 2010, the Bank's ratings assigned by international rating agencies, Fitch Ratings and Moody's Ratings are as follows:

Fitch Ratings, December 2009

Long Term Foreign Currency IDR	BBB- (Stable)
Short Term Foreign Currency IDR	F3
Individual Rating	D
Support	3
Long Term Local Currency IDR	BBB- (Stable)
Short Term Local Currency	F3
National	AAA (TUR) (Stable)

Moody's Ratings, January 2010

Long Term Foreign Currency	Ba3 (Stable)
Short Term Foreign Currency	NP
Financial Strength Rating	D
Long Term Local Currency	Baa3 (Stable)
Short Term Local Currency	P-3

18. Subsequent and other events

On 29 July 2010, Central Bank of Turkey increased the required reserve ratio for foreign currency liabilities to 10% from 9.5%.