



Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi

Consolidated Financial Statements

As at and for the Year Ended

31 December 2010

With Independent Auditors' Report

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi

18 February 2011

*This report contains 1 page of independent
auditors' report and 70 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

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

We have audited the accompanying consolidated financial statements of Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi (the "Bank") and its subsidiaries (collectively "the Group"), which comprise the consolidated financial position as at 31 December 2010, and the consolidated statement of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2010, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

18 February 2011
İstanbul, Turkey

KPMG Akis Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik A.Ş.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Consolidated Statement of Financial Position****As at 31 December 2010***(Currency - In thousands of Turkish Lira)*

	<i>Note</i>	Audited 2010	Audited 2009
ASSETS			
Cash and balances with central banks	11	93,958	53,336
Due from banks and financial institutions	11	48,281	25,507
Interbank and other money market placements	11	21,980	23,559
Reserve deposits at central banks	12	106,058	86,033
Trading assets	13	31,773	20,373
Investment securities	14	108,008	86,671
Loaned securities	14	20,304	26,435
Receivables from customers due to brokerage activities		-	480
Loans and advances to customers	15	1,167,208	1,206,781
Finance lease receivables	16	7,475	9,814
Property and equipment	17	10,433	13,810
Intangible assets	18	45,172	45,103
Deferred tax assets	10	2,164	4,532
Assets held from discontinued operations	4	3,970	-
Other assets	19	21,707	25,817
Total assets		1,688,491	1,628,251
LIABILITIES			
Deposit from other banks	20	426	580
Customer deposits	20	93,903	64,080
Other money market deposits	20	37,233	44,441
Trading liabilities	13	21,384	14,500
Funds borrowed	21	804,101	943,634
Debt securities issued	22	153,391	51,633
Other liabilities	23	117,100	79,354
Provisions	24	4,165	3,603
Current tax liabilities	10	2,968	176
Deferred tax liabilities	10	2,236	28
Liabilities held from discontinued operations	4	2,062	-
Total liabilities		1,238,969	1,202,029
EQUITY			
Share capital and share premium	25	379,114	379,114
Available-for-sale reserve, net of tax	25	3,348	(400)
Currency translation reserve	25	(11,135)	(10,862)
Retained earnings		78,195	58,370
Total equity		449,522	426,222
Total equity and liabilities		1,688,491	1,628,251

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Consolidated Statement of Income****For the year ended 31 December 2010***(Currency - In thousands of Turkish Lira)*

		Audited	Audited
	<i>Note</i>	2010	2009
Interest income			
Interest income on loans and advances		115,736	135,440
Interest income on deposits with other banks and financial institutions		782	1,287
Interest income on securities		12,206	13,995
Interest income on interbank and other money market placements		700	6,612
Interest income on financial leases		865	1,301
Other interest income		14,333	8,902
Total interest income		144,622	167,537
Interest expense			
Interest expense on deposits		(859)	(1,118)
Interest expense on other money market deposits		(1,225)	(821)
Interest expense on funds borrowed		(57,142)	(57,086)
Interest expense on debt securities issued		(7,698)	(1,633)
Other interest expense		(9,261)	(11,615)
Total interest expense		(76,185)	(72,273)
Net interest income		68,437	95,264
Fees and commission income	5	19,059	19,260
Fees and commission expense	5	(1,423)	(2,108)
Net fee and commission income		17,636	17,152
Net trading income and foreign exchange gain, net	6	15,354	12,568
Other operating income	7	2,117	730
Total operating income		103,544	125,714
Net impairment loss on financial and non-financial assets	15 and 16	(6,806)	(33,466)
Personnel expenses	8	(32,898)	(32,388)
Depreciation and amortisation	17 and 18	(7,290)	(7,045)
Administrative expenses	9	(18,346)	(23,074)
Taxes other than on income		(1,759)	(1,925)
Other expenses		(3,740)	(3,747)
Total operating expense		(64,033)	(68,179)
Profit before income tax		32,705	24,069
Income tax	10	(6,858)	(5,367)
Net profit for the year from continuing operations		25,847	18,702
Loss from discontinued operations	4	(685)	-
Net profit for the year		25,162	18,702

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Consolidated Statement of Comprehensive Income****For the year ended 31 December 2010***(Currency - In thousands of Turkish Lira)*

	Audited 2010	Audited 2009
Profit for the year	25,162	18,702
Other comprehensive income		
Foreign currency translation differences for foreign operations	(273)	(10,827)
Available-for-sale reserve		
Net change in fair value of available-for-sale financial assets	4,123	1,411
Net change in fair value of available-for-sale financial assets transferred to profit or loss	146	(81)
Income tax on other comprehensive income	(521)	(147)
Other comprehensive income for the year, net of income tax	3,475	(9,644)
Total comprehensive income for the year	28,637	9,058

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Consolidated Statement of Changes in Equity****For the year ended 31 December 2010***(Currency - In thousands of Turkish Lira)*

	<i>Note</i>	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		-	-	-	-	-	18,702	18,702
Other comprehensive income								
Foreign currency translation differences	25	-	-	-	-	(10,827)	-	(10,827)
Net change in fair value of available-for-sale financial assets, net of tax	25	-	-	-	1,183	-	-	1,183
Total other comprehensive income		-	-	-	1,183	(10,827)	-	(9,644)
Total comprehensive income for the year		-	-	-	1,183	(10,827)	18,702	9,058
Contributions by and distributions to owners								
Share capital increase		-	-	-	-	-	-	-
Dividends to equity holders	25	-	-	-	-	-	(50,000)	(50,000)
Total contributions by and distributions to owners		-	-	-	-	-	(50,000)	(50,000)
At 31 December 2009		337,292	20,121	21,701	(400)	(10,862)	58,370	426,222
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		-	-	-	-	-	25,162	25,162
Other comprehensive income								
Foreign currency translation differences	24	-	-	-	-	(273)	-	(273)
Net change in fair value of available-for-sale financial assets, net of tax	24	-	-	-	3,748	-	-	3,748
Total other comprehensive income		-	-	-	3,748	(273)	-	3,475
Total comprehensive income for the year		-	-	-	3,748	(273)	25,162	28,637
Contributions by and distributions to owners								
Share capital increase		-	-	-	-	-	-	-
Dividends to equity holders	24	-	-	-	-	-	(5,337)	(5,337)
Total contributions by and distributions to owners		-	-	-	-	-	(5,337)	(5,337)
At 31 December 2010		337,292	20,121	21,701	3,348	(11,135)	78,195	449,522

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Consolidated Cash Flow Statement****For the year ended 31 December 2010***(Currency - In thousands of Turkish Lira)*

		Audited	Audited
	<i>Note</i>	2010	2009
Cash flows from operating activities			
Interest received		148,463	167,453
Interest paid		(75,334)	(73,557)
Fees and commissions received		18,139	21,941
Trading income		8,621	567
Recoveries from non-performing loans	15	16,531	10,410
Fees and commissions paid		(1,500)	(9,877)
Cash payments to employees and other parties		(32,223)	(31,056)
Cash received from other operating activities		5,798	10,050
Cash paid for other operating activities		(24,643)	(33,266)
Income taxes paid		(275)	(11,959)
		63,577	50,706
Change in banks and financial institutions		(687)	36,923
Change in trading assets		1,721	(3,853)
Change in reserve deposits at central banks		(20,074)	16,833
Change in loans and advances		10,806	(87,738)
Change in finance lease receivables		2,395	9,444
Change in other assets		1,379	4,360
Change in receivables from customers due to brokerage activities		-	(287)
Change in deposit from other banks		(154)	462
Change in customer deposits		29,823	(24,418)
Change in interbank and other money market deposits		(7,211)	23,163
Change in other liabilities		41,156	(15,918)
Net cash provided by / (used in) operating activities		122,731	9,677
Cash flows from investing activities			
Purchases of investment securities	14	(108,911)	(90,145)
Proceeds from sale and redemption of investment securities	14	95,513	70,502
Purchases of property and equipment	17	(1,051)	(2,718)
Proceeds from the sale of premises and equipment		65	2,195
Purchases of intangible assets	18	(2,429)	(2,664)
Proceeds from sale of intangible assets		428	185
Net cash (used in) / provided by investing activities		(16,385)	(22,645)
Cash flows from financing activities			
Proceeds from issue of debt securities	22	100,000	50,000
Proceeds from share capital increase	25	-	-
Proceeds from funds borrowed		604,082	1,064,587
Repayment of funds borrowed		(743,134)	(1,185,474)
Dividends paid	25	(5,337)	(50,000)
Net cash (used in) / provided by financing activities		(44,389)	(120,887)
Effect of net foreign exchange difference on cash and cash equivalents		(864)	2,561
Net (decrease) / increase in cash and cash equivalents		61,093	(131,294)
Cash and cash equivalents at 1 January	11	99,482	230,776
Cash and cash equivalents at 31 December	11	160,575	99,482

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2010

(Currency - In thousands of Turkish Lira)

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 31 December 2010, 69.83% (2009 – 69.83%) of the shares of the Bank belong to Tarshish and are controlled by Bank Hapoalim and 30.17% (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 – İstanbul / Turkey.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2010

(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. On 29 July 2010, the JSC BankPozitiv's share capital was increased by KZT 950,000,000 (USD 6,440,678)

Pozitif Menkul Değerler A.Ş. ("Pozitif Menkul") is involved in intermediary and brokerage activities and also provides portfolio management and custody services to its customers.

On 23 June 2010, the Bank agreed with potential purchasers to sell 99% of the issued capital of Pozitif Menkul. Share transfer was approved by Capital Markets Board of Turkey with its letter dated 17 January 2011. Purchase price of Pozitif Menkul is determined according to net asset value of Pozitif Menkul. On 24 August 2010, the Pozitif Menkul's share capital was increased from TL 3,000 to TL 3,400.

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 consolidated financial statements.

As at 31 December 2010, the Bank provides services through its head office and one branch. As at 31 December 2010, the number of employees for the Bank and its consolidated subsidiaries are 288 and 238 respectively (2009 – 263 and 246).

For the purposes of the consolidated 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 31 December 2010 and 2009 are as follows:

	Place of incorporation	Principal activities	Effective shareholding and voting rights (%)	
			31 December 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

(*) Classified as discontinued operations as at 31 December 2010.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2010

(Currency - In thousands of Turkish Lira)

2. Basis of preparation

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

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 Market Boards 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 consolidated 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 consolidated financial statements as at 31 December 2010 of the Bank are authorised for issue by the management on 18 February 2011. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

2.2 Basis of measurement

The consolidated 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 consolidated 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.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2010

(Currency - In thousands of Turkish Lira)

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 consolidated 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 consolidated 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 31 December 2010 was TL 37,906 (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 and finance lease receivables as at 31 December 2010 is TL 1,174,683 (2009 – TL 1,216,595) net of impairment allowance of TL 55,189 (2009 – TL 48,491).

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2010

(Currency - In thousands of Turkish Lira)

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 31 December 2010, the carrying amount of derivative financial instrument assets TL 29,624 (2009 – TL 16,515) and the carrying amount of derivative financial instrument liabilities is TL 21,384 (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 31 December 2010, the Group has net income taxes payable amounting to TL 2,968 (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 31 December 2010, the Group carries a net deferred tax liabilities amounting to TL 72 (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 31 December 2010 is TL 182 (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.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2010

(Currency - In thousands of Turkish Lira)

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 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 consolidated 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 consolidated 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).

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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)
31 December 2008	1.5123	2.1408	120.79
31 December 2009	1.5057	2.1603	148.46
31 December 2010	1.5460	2.0491	147.50

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 consolidated income statement of income on disposal of the foreign operation.

3.3 Interest

Interest income and expense are recognised in the consolidated 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 cap/floor agreements is presented as other interest income and expense in the accompanying consolidated financial statements.

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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 consolidated 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.

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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 consolidated 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 consolidated 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.

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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, currency options and interest rate cap/floor agreements 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 consolidated 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.

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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.

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

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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 consolidated income statement. The losses arising from impairment are recognised in the consolidated 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 31 December 2010, the Group does not have any investment securities at fair value through profit or loss (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 consolidated 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 consolidated statement of income.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

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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 consolidated statement of income, is transferred from consolidated statement of other comprehensive income to the consolidated statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the consolidated statement of income. Reversals of impairment losses on debt instruments are reversed through the consolidated 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 consolidated statement of income.

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

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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 consolidated 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 consolidated 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 consolidated 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.

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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 consolidated 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.

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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 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.

(iii) Other benefits

The bonus provision which was calculated on defined criteria and targets for the upper-management and employees presented as provision in the accompanying consolidated financial statements.

3.21 Fiduciary assets

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

3.22 Segment reporting

An operating segment is a component of the Group that engage in business activities from which it may earn income and incur expenses, including income and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

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3. Significant accounting policies *(continued)*

3.23 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations which are not effective as of 31 December 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.

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.

IFRS 7 Financial Instruments is amended to add an explicit statement that the interaction between qualitative and quantitative disclosures better enables users to evaluate an entity's exposure to risks arising from financial instruments. The amendment is effective for annual periods beginning on or after 1 January 2011.

IAS 34 Interim Financial Reporting - Significant Events and Transactions; a number of examples have been added to the list of events or transactions that require disclosure under IAS 34. The amendment is effective for annual periods beginning on or after 1 January 2011.

IAS 27 Consolidated and Separate Financial Statements – Transition requirements for amendments made as a result of IAS 27 (2008) to IAS 21, IAS 28 and IAS 31; consequential amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures (as a result of prior amendments to IAS 27) to be applied prospectively, except for the amendments to IAS 28 and IAS 31 that solely are the result of renumbering in IAS 27 (2008). The amendment is effective for annual periods beginning on or after 1 January 2011.

IAS 1 Presentation of Financial Statements - The amendments clarify that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income also is required to be presented, but may be presented either in the statement of changes in equity or in the notes. The amendment is effective for annual periods beginning on or after 1 January 2011.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2010***(Currency - In thousands of Turkish Lira)***4. Discontinued operations**

Pozitif Menkul is involved in intermediary and brokerage activities and also provides portfolio management and custody services to its customers.

On 23 June 2010, the Bank agreed with potential purchasers to sell 99% of the issued capital of Pozitif Menkul. Pozitif Menkul is classified as discontinued operations following the approval of share transfer by Capital Markets Board of Turkey on 17 January 2011. Purchase price of Pozitif Menkul is determined according to net asset value of Pozitif Menkul. On 24 August 2010, the Pozitif Menkul's share capital was increased from TL 3,000 to TL 3,400. As at 31 December 2010, the balance sheet of Pozitif Menkul as stated below:

Balance Sheet	Pre-disposal carrying amounts as at 31 December 2010
Due from other banks and financial institutions	46
Interbank and other money market placements	1,480
Receivables from customers due to brokerage activities	1,064
Investment securities	99
Property and equipment	93
Intangible assets	62
Deferred tax assets	342
Other assets	784
Assets held from discontinued operations	3,970
Other liabilities	(1,949)
Provisions	(113)
Liabilities held from discontinued operations	(2,062)
Net identifiable assets and liabilities	1,908

Income Statement	31 December 2010
Net interest income	134
Brokerage fees	853
Net trading income	(3)
Foreign exchange gain, net	25
Other operating income	39
Other operating expense	(1,738)
Income tax	5
Loss from discontinued operation	(685)

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2010***(Currency - In thousands of Turkish Lira)***5. Net fee and commission income**

	2010	2009
Fee and commission income		
Credit related fees and commissions	8,357	6,773
Financial guarantee contracts issued	6,356	7,132
Banking service commissions	2,064	2,493
Brokerage fees (Note 4)	-	744
Other	2,282	2,118
Total fee and commission income	19,059	19,260
Fee and commission expense		
Derivative transaction fees and commissions	(359)	(347)
Corresponding bank fees	(295)	(898)
Other	(769)	(863)
Total fee and commission expense	(1,423)	(2,108)
Net fee and commission income	17,636	17,152

6. Net trading income and net foreign exchange gain

	2010	2009
Foreign exchange gain, net	6,733	12,001
Income from investment securities, net	8,020	566
Income from trading securities, net	601	2
Other	-	(1)
Total	15,354	12,568

7. Other operating income

	2010	2009
Fixed assets sales income	531	94
Software sales and rental income	215	122
Other	1,371	514
Total	2,117	730

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2010***(Currency - In thousands of Turkish Lira)***8. Personnel expenses**

	2010	2009
Wages and salaries	27,584	27,967
Other fringe benefits	2,493	2,059
Compulsory social security obligations	2,178	1,828
Provision for employee termination benefits	11	118
Other benefits	632	416
Total	32,898	32,388

The number of employees for the years is:

	2010	2009
The Bank	288	263
Subsidiaries	238	246
Total	526	509

9. Administrative expenses

	2010	2009
Consultancy expense	3,899	4,953
Operating lease expenses	3,772	5,669
Communication expenses	2,480	2,511
Information technology expenses	1,367	1,828
Advertising expenses	919	918
Representation expenses	829	936
Lightening expenses	756	685
Transportation expenses	698	715
Gasoline expenses	467	419
Others	3,159	4,440
Total	18,346	23,074

10. 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 consolidated balance sheet, has been calculated on a separate-entity basis.

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2010***(Currency - In thousands of Turkish Lira)***10. Taxation (continued)**

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

	2010	2009
Income tax liability	3,067	13,008
Prepaid income tax	(99)	(12,832)
Income taxes payable	2,968	176

Income tax recognised in the income statement

The components of income tax expense as stated below:

	2010	2009
Current tax expense		
Current year	(3,013)	(10,927)
Deferred tax income / (expense)		
Relating to origination and reversal of temporary differences	(3,845)	5,560
Income tax expense reported in the income statement	(6,858)	(5,367)

Reconciliation of effective tax rate

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate of the parent for the years ended 31 December 2010 and 2009 is as follows:

	2010	2009
Profit before income tax	32,705	24,069
Income tax using the domestic corporation tax rate 20% (2009 – 20%)	(6,541)	(4,814)
Tax losses for which no deferred tax asset was recognised	-	(327)
Impairment of goodwill	(55)	-
Non-deductible expenses	(374)	(530)
Tax exempt income	112	304
Total income tax expense in the income statement	(6,858)	(5,367)

Current tax (income) / expense recognised directly in equity

	2010	2009
Balance at 1 January	(2,160)	(4,241)
Foreign currency subsidiary valuation – net investment hedge	(621)	1,934
Available-for-sale financial assets	675	147
Tax income reported in equity	(2,106)	(2,160)

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2010***(Currency - In thousands of Turkish Lira)***10. Taxation (continued)****Deferred tax expense / (income) recognised directly in equity**

	2010	2009
Balance at 1 January	2,473	4,407
Foreign currency subsidiary valuation	621	(1,934)
Available-for-sale financial assets	(154)	-
Deferred tax expense / (income) reported in equity	2,940	2,473

Tax recognised in other comprehensive income

	2010	2009
Available-for-sale investment securities	521	147
	521	147

Deferred tax assets and liabilities**Recognised deferred tax assets and liabilities**

The deferred tax included in the consolidated balance sheet and changes recorded in the income tax expense are as follows:

	Deferred tax asset	Deferred tax liability	Income statement	Deferred tax asset	Deferred tax liability	Income statement
	2010	2010	2010	2009	2009	2009
Reserve for loan losses	2,525	(972)	(1,702)	3,671	(403)	824
Derivative financial instruments	4,277	(5,925)	(1,245)	2,900	(3,303)	394
Foreign currency subsidiary valuation ⁽¹⁾	-	(3,094)	-	-	(2,473)	-
Liability for defined benefit plans	828	-	144	700	-	278
Property and equipment	-	(495)	237	-	(728)	(222)
Valuation of HTM	-	-	(1,172)	1,234	(62)	1,714
Tax losses	3,134	-	322	3,049	-	2,672
Valuation of investment securities ⁽¹⁾	154	-	-	-	-	-
Others	253	(757)	(429)	308	(389)	(100)
Deferred tax asset / (liability)	11,171	(11,243)		11,862	(7,358)	
Deferred tax income / (expense)			(3,845)			5,560

⁽¹⁾ Deferred tax income/expense recognised in equity.

Reflected as:

	2010	2009
Deferred tax assets	2,164	4,532
Deferred tax liabilities	(2,236)	(28)

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2010***(Currency - In thousands of Turkish Lira)***10. Taxation (continued)****Deferred tax assets and liabilities (continued)**

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

	2010	2009
Deferred tax (liabilities)/ assets, net at 1 January	4,504	(2,906)
Deferred tax recognised in the income statement	(3,845)	5,560
Deferred income tax recognised in equity	(467)	1,934
Exchange rate differences	73	(84)
Discontinued operations (Note 4)	(337)	-
Deferred tax assets/(liabilities), net at the end of the year	(72)	4,504

11. Cash and cash equivalents

	2010	2009
Cash and balances with central banks	93,958	53,336
- <i>Cash on hand</i>	3,256	3,427
- <i>Balances with central banks</i>	90,702	49,909
Due from banks and financial institutions	48,281	25,507
Interbank and other money market placements	21,980	23,559
Cash and cash equivalents in the balance sheet	164,219	102,402
Less: Due from banks with original maturities of more than 3 months and restricted balance	(3,644)	(2,920)
Cash and cash equivalents in the cash flow statement	160,575	99,482

As at 31 December 2010 and 2009, the details of the balances with central banks, due from banks and financial institutions and interbank and other money market placements are as follows:

	2010			
	Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Balances with central banks	2	90,700	-	-
Due from banks and financial institutions	34,098	14,183	6.39%	USD-0.45% KZT-0.75%
Interbank and other money market placements	21,980	-	6.79%	-
Total	56,080	104,883		
	2009			
	Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Balances with central banks	2	49,907	-	-
Due from banks and financial institutions	1,148	24,359	-	USD-0.10%
Interbank and other money market placements	23,559	-	6.71%	-
Total	24,709	74,266		

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2010***(Currency - In thousands of Turkish Lira)***12. Reserve deposits at central banks**

	2010	2009
Turkish Lira	8,084	4,598
Foreign currency	97,974	81,435
	106,058	86,033

According to the regulations of Central Bank of the Republic of Turkey (“Central Bank”) and National Bank of Kazakhstan, banks are required to reserve a portion of certain liability accounts as specified in the related decrees. Such mandatory reserves are not available for use in the Group’s day to day operations.

As at 31 December 2010, required reserve ratios for TL and foreign currency liability accounts with the Central Bank are 6% and 11% (2009 – 5% and 9%). As at 31 December 2010 and 2009, required reserve ratio applicable for resident and non-resident Kazakh Tenge (“KZT”) and foreign currency liabilities of the foreign subsidiary are 6% and 8% (2009 – 6% and 8%), respectively.

As at 31 December 2010, the interest rates applied both domestic and foreign subsidiary’s reserve deposits are zero.

13. Trading assets and liabilities

	2010	2009
Debt instruments		
Turkish government bonds-TL denominated	2,149	3,828
Turkish government bills-TL denominated	-	30
Derivative transactions		
Derivative financial instruments	29,624	16,515
Total trading assets	31,773	20,373

As at 31 December 2010, effective interest rate of Turkish government bonds was 8.79% (2009 – 12.27% 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 cap/floor agreements. 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.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2010***(Currency - In thousands of Turkish Lira)***13. Trading assets and liabilities (continued)**

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 year-end and are neither indicative of the market risk nor credit risk.

	2010		
	Fair value assets	Fair value liabilities	Notional amount in TL equivalent
Derivatives held for trading			
Forward purchase contract	6	7	5,143
Forward sale contract	15	-	5,131
Currency swap purchase	10,170	1,670	565,590
Currency swap sale	19,429	19,523	555,315
Future purchase contract	4	184	7,135
Future sales contract	-	-	7,311
Total derivatives held for trading	29,624	21,384	1,145,625
	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
Total derivatives held for trading	16,515	14,500	1,362,388

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

Notional amounts and contractual maturity analyses of derivative transactions are disclosed in Note 28.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2010***(Currency - In thousands of Turkish Lira)***14. Investment securities**

	2010	2009
Held-to-maturity investment securities	-	42,776
	-	42,776
Available-for-sale investment securities	108,008	43,895
	108,008	43,895
Total investment securities	108,008	86,671

Held-to-maturity investment securities

	2010		2009	
	Amount	Effective interest rate	Amount	Effective interest rate
Debt instruments				
Turkish government bonds – TL denominated, net	-	-	31,829	21.48%
- <i>Gross amount</i>	-		31,829	
- <i>Impairment on government bonds</i>	-		-	
Corporate bonds – USD, EUR denominated, net	-	-	10,947	USD-9.25%-28.25%
				EUR-43.88%
- <i>Gross amount</i>	-		10,947	
- <i>Impairment on corporate bonds</i>	-		-	
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:

	2010	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 year end	-	42,776

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2010***(Currency - In thousands of Turkish Lira)***14. Investment securities (continued)****Available-for-sale investment securities**

	2010		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	85,469	12.48%	33,703	12.23%
- <i>Gross amount</i>	85,469		33,703	
- <i>Impairment on government bonds</i>	-		-	
Foreign government bonds – KZT				
denominated, net	13,579	1.48%	10,116	2.00%
- <i>Gross amount</i>	13,579		10,116	
- <i>Impairment on government bonds</i>	-		-	
Corporate bonds–USD, KZT				
denominated, net	8,888		-	-
- <i>Gross amount</i>	8,888	9.25%-7.00%	-	-
- <i>Impairment on corporate bonds</i>	-		-	-
Total available-for-sale securities at fair value	107,936		43,819	
Available-for-sale investment securities at cost				
Equity instruments – unlisted	72		76	-
Total available-for-sale securities	108,008		43,895	

Loaned securities

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

	2010	2009
Loaned securities from available-for-sale securities	20,304	26,435
Total loaned securities	20,304	26,435
Related liability (Note 20)	19,751	23,737

Repurchase agreements mature within one month.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2010***(Currency - In thousands of Turkish Lira)***14. Investment securities (continued)****Available-for-sale investment securities (continued)**

As at 31 December 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 31 December 2010, KZT denominated available-for-sale securities comprise a National Bank of the Republic of Kazakhstan bond and have a maturity of March 2011. As at 31 December 2010, USD and KZT denominated investment securities comprise corporate bonds with semi-annual coupon payments having maturity range of July 2012 and May 2012, respectively.

As at 31 December 2010, available-for-sale investment securities with carrying value of TL 44,879 (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:

	2010	2009
Pratic	49	49
Common shares of Kazakhstan Stock Exchange	23	22
Gelişen Bilgi Teknolojileri A.Ş. ⁽¹⁾	-	5
	72	76

⁽¹⁾ Commercial title of Gelişen İşletmeler Piyasası A.Ş. has been changed to Gelişen Bilgi Teknolojileri A.Ş.. As per the decision taken at the general assembly meeting of Gelişen Bilgi Teknolojileri A.Ş. at 5 April 2010, the Company's share capital was decreased from TL 10,000 to TL 50.

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

	2010	2009
Balance at 1 January	70,330	54,871
Additions	108,911	86,382
Disposals (sale and redemption)	(73,886)	(70,502)
Transfer from other portfolios	14,883	-
Change in interest accrual	7,644	(415)
Exchange rate differences	529	(6)
Discontinued operations (Note 4)	(99)	-
Balance at end of the year	128,312	70,330

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2010

(Currency - In thousands of Turkish Lira)

15. Loans and advances to customers

2010							
	Amount			Total	Effective interest rate		
	Turkish Lira	Foreign currency	Foreign currency indexed		Turkish Lira	Foreign currency	Foreign currency indexed
Corporate loans	127,411	509,485	250,160	887,056	12.56%	USD-7.51%-18.00% EUR-8.51% KZT-13.79%	USD-7.47% EUR-7.81%
Consumer loans ⁽¹⁾	208,330	8,470	42,822	259,622	17.32%	USD-12.49% KZT-19.16%	USD-10.82% EUR-8.13% CHF-7.47% JPY-5.96% GBP-11.28%
Total loans	335,741	517,955	292,982	1,146,678			
Loans in arrears				75,712			
Less: Specific reserve for impairment				(39,448)			
Less: Portfolio reserve for impairment				(15,734)			
				1,167,208			

⁽¹⁾ Commercial installment loans amounting TL 3,203 is included in consumer loans.

2009							
	Amount			Total	Effective interest rate		
	Turkish Lira	Foreign currency	Foreign currency indexed		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 11,834 is included in consumer loans.

As at 31 December 2010, loans with floating rates amounted to TL 225,852 (2009 – TL 294,988) and fixed interest rates amounted to TL 920,826 (2009 – TL 887,650).

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2010***(Currency - In thousands of Turkish Lira)***15. Loans and advances to customers (continued)**

Movements in non-performing loans (includes finance lease receivables):

	2010	2009
Non-performing loans at 1 January	72,634	21,300
Additions to non-performing loans	20,065	66,939
Recoveries	(16,531)	(10,410)
Transfers to performing loans	-	(5,021)
Write-offs	(570)	(165)
Exchange rate differences	211	(9)
Non performing loans at the end of the year	75,809	72,634

Movements in the reserve for possible loan losses (includes finance lease receivables)

	2010	2009
Reserve at beginning of year	48,491	25,050
Provision net of recoveries	6,806	24,457
- <i>Specific provision for loan impairment</i>	23,120	17,518
- <i>Portfolio provision/(reversal) for loan impairment</i>	(11,603)	12,394
- <i>Recoveries</i>	(4,711)	(5,455)
Loans written-off during the year	(538)	(165)
Exchange rate differences	430	(851)
Reserve at the end of the year	55,189	48,491

As at 31 December 2010, loans, advances and finance lease receivables on which interest is not being accrued, or where interest is suspended amounted to TL 75,809 (2009 – TL 72,634).

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2010***(Currency - In thousands of Turkish Lira)***16. Finance lease receivables**

	2010	2009
Less than one year	5,851	6,017
Between one and five years	2,762	4,616
Finance lease receivables, gross	8,613	10,633
Less: Unearned future income on finance leases	(1,228)	(819)
Net investment in finance leases	7,385	9,814
Finance leases in arrears (note 15)	97	-
Less: Reserve for impairment (note 15)	(7)	-
Less: Portfolio reserve for impairment (note 15)	-	-
Finance lease receivables, net	7,475	9,814

The net investment in finance leases comprises excluding finance leases in arrears:

	2010	2009
Less than one year	5,192	5,413
Between one and five years	2,193	4,401
	7,385	9,814

As at 31 December 2010, TL 445 of net investment in finance leases is denominated in USD, TL 4,892 of net investment in finance leases is denominated in EUR, TL 1,860 of net investment in finance leases is denominated in TL and TL 188 of net investment in finance leases is denominated in KZT (2009 – TL 881, TL 8,511 and TL 422 denominated in USD, EUR and KZT, respectively).

As at 31 December 2010, the effective interest rate for finance lease receivables denominated in USD is 8.74%-19.00% (2009 – 8.52%-19.00%), in EUR 7.88% (2009 – 7.90%), in TL 18.50% (2009 – none) and in KZT 16.00% (2009 – 22.07%).

As at 31 December 2010, finance lease receivables amounting to TL 4,850 (2009 – TL 8,289) have floating interest rate and remaining TL 2,535 (2009 – TL 1,525) have fixed interest rates.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2010***(Currency - In thousands of Turkish Lira)***17. Property and equipment**

	Land and buildings	Office equipment, furniture and fixtures	Leasehold improvements	Motor vehicles	Total
Cost					
Balance at 1 January 2009	2,180	15,838	10,738	1,498	30,254
Additions	1	1,560	1,086	71	2,718
Disposals	(405)	(1,506)	(2,939)	(353)	(5,203)
Transfer	-	560	(560)	-	-
Exchange rate differences	(10)	(234)	(3)	(399)	(646)
Balance at 31 December 2009	1,766	16,218	8,322	817	27,123
Balance at 1 January 2010	1,766	16,218	8,322	817	27,123
Additions	-	859	192	-	1,051
Disposals	-	(633)	(1,205)	(31)	(1,869)
Discontinued operations (Note 4)	-	(533)	(28)	-	(561)
Exchange rate differences	61	159	43	24	287
Balance at 31 December 2010	1,827	16,070	7,324	810	26,031
Depreciation					
Balance at 1 January 2009	(10)	(6,872)	(4,121)	(623)	(11,626)
Depreciation charge for the year	(41)	(2,489)	(1,842)	(145)	(4,517)
Disposals	-	455	1,290	245	1,990
Transfer	-	(211)	211	-	-
Exchange rate differences	2	514	219	105	840
Balance at 31 December 2009	(49)	(8,603)	(4,243)	(418)	(13,313)
Balance at 1 January 2010	(49)	(8,603)	(4,243)	(418)	(13,313)
Depreciation charge for the year	(45)	(2,465)	(1,581)	(113)	(4,204)
Disposals	-	546	1,043	14	1,603
Discontinued operations (Note 4)	-	378	13	-	391
Exchange rate differences	(1)	(49)	(15)	(10)	(75)
Balance at 31 December 2010	(95)	(10,193)	(4,783)	(527)	(15,598)
Carrying amounts					
Balance at 31 December 2008	2,170	8,966	6,617	875	18,628
Balance at 31 December 2009	1,717	7,615	4,079	399	13,810
Balance at 31 December 2010	1,732	5,877	2,541	283	10,433

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	Goodwill	Purchased software	Developed software	Total
Cost				
Balance at 1 January 2009	46,403	9,077	3,109	58,589
Additions	-	2,156	508	2,664
Disposals	-	(287)	-	(287)
Exchange rate differences	(201)	(395)	-	(596)
Balance at 31 December 2009	46,202	10,551	3,617	60,370
Balance at 1 January 2010	46,202	10,551	3,617	60,370
Additions	-	1,198	1,231	2,429
Disposals	(275)	(281)	-	(556)
Discontinued operations (Note 4)	-	(234)	-	(234)
Exchange rate differences	1,229	64	-	1,293
Balance at 31 December 2010	47,156	11,298	4,848	63,302
Amortisation and impairment losses				
Balance at 1 January 2009	-	(3,002)	(937)	(3,939)
Amortisation charge for the year	-	(2,198)	(330)	(2,528)
Disposals	-	102	-	102
Impairment losses	(9,009)	-	-	(9,009)
Exchange rate differences	-	107	-	107
Balance at 31 December 2009	(9,009)	(4,991)	(1,267)	(15,267)
Balance at 1 January 2010	(9,009)	(4,991)	(1,267)	(15,267)
Amortisation charge for the year	-	(2,438)	(365)	(2,803)
Disposals	-	68	-	68
Impairment losses	-	-	-	-
Discontinued operations (Note 4)	-	130	-	130
Exchange rate differences	(241)	(17)	-	(258)
Balance at 31 December 2010	(9,250)	(7,248)	(1,632)	(18,130)
Carrying amounts				
Balance at 31 December 2008	46,403	6,075	2,172	54,650
Balance at 31 December 2009	37,193	5,560	2,350	45,103
Balance at 31 December 2010	37,906	4,050	3,216	45,172

The carrying amount of goodwill at 31 December 2010 was TL 37,906 (2009 – TL 37,193).

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

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19. Other assets

	2010	2009
Prepaid expenses	10,214	11,850
Asset held for resale	5,314	5,445
Collateral given for derivative transactions	1,870	4,920
Prepaid taxes	1,252	2,009
- Income taxes	622	544
- Other taxes	630	1,465
Advances given	893	197
Others	2,164	1,396
	21,707	25,817

As at 31 December 2010 and 2009, prepaid taxes of TL 99 and TL 12,832 have been offset against current taxes payable, respectively.

20. Deposits

Deposits from other banks

	2010				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	-	426	-	-	-	580	-	-
Time	-	-	-	-	-	-	-	-
Total	-	426	-	-	-	580		

Customer deposits

	2010				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	-	6,653	-	-	-	7,462	-	-
Time	-	3,527		KZT-9.22% EUR-6.16% USD-4.96%	-	6,279	-	KZT-9.99% EUR-2.40% USD-5.79%
Total	-	10,180			-	13,741		
Corporate customers								
Demand	-	26,273	-	-	-	32,430	-	-
Time	-	57,450		KZT-1.63%	-	17,909	-	KZT-8.21% USD-2.93%
Total	-	83,723			-	50,339		
	-	93,903			-	64,080		

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	2010				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	19,751	-	6.78%	-	23,737	-	6.56%	-
Istanbul Stock Exchange Settlement and Custody	17,482	-	4.69%	-	20,704	-	4.03%	-
Total	37,233	-			44,441	-		

As at 31 December 2010, other money market deposits of TL 37,233 (2009 – TL 44,441) have fixed interest rates.

21. Funds borrowed

	2010				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	362	18,414	-	USD-2.69% EUR-0.52%	4,795	115,134	7.67%	USD-2.66% EUR-4.66%
Floating interest	-	66,429	-	USD-3.03% EUR-3.72%	-	57,266	-	USD-3.03% EUR-4.59%
Long-term								
Fixed interest	-	678,713	-	USD-7.31% EUR-4.63%	-	716,302	-	USD-7.28% EUR-4.63%
Floating interest	-	40,183	-	USD-3.51% EUR-3.54%	-	50,137	-	USD-3.83% EUR-3.78%
Total	362	803,739			4,795	938,839		

⁽¹⁾ Based on original maturities.

Repayments of long term borrowing are as follows:

	2010		2009	
	Floating rate	Fixed rate	Floating rate	Fixed rate
2010	-	-	25,416	38,737
2011	26,820	6,451	17,695	-
2012	9,755	214,028	3,513	225,855
2013	3,608	227,107	3,513	225,855
2014	-	231,127	-	225,855
Total	40,183	678,713	50,137	716,302

Floating rate borrowings have interest rate repricing periods of 3 to 6 months.

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

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

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	2010	2009
Debt securities issued at amortised cost	153,391	51,633
Total	153,391	51,633

Debt securities have a maturity of September 2011 and October 2013 with a 12.03% and a 10.08% of fixed interest rate, respectively. Securities are issued in accordance with the regulation of Capital Markets Board of Turkey and TL 100 million nominal bond is being traded at Bond and Bill Markets of Istanbul Stock Exchange.

23. Other liabilities

	2010	2009
Current accounts of loan customers	77,020	61,535
Import transactions payables	23,963	-
Unearned commission income	2,246	3,188
Collateral received for derivative transactions	574	2,268
Taxes and funds payables	1,946	1,902
Insurance payables	1,225	929
Transfer payables	1,588	-
Others	8,538	9,532
	117,100	79,354

As at 31 December 2010, TL 54,162 (2009 – TL 42,335) of TL 77,020 (2009 – TL 61,535) of current accounts of loan customers is interest bearing. The effective interest rate for current accounts of loan customers denominated in USD is 2.31% (2009 – 2.8%), in EUR is 3.11% (2009 – null) and in TL 5.22% (2009– 7.2%). Current accounts of loan customers have fixed interest rates.

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	2010	2009
Employee termination benefits	182	239
Vacation pay liability	537	518
Other	3,446	2,846
	4,165	3,603

The movement in provision for employee termination benefits is as follows:

	2010	2009
At 1 January	239	121
Increase during the year	65	125
Paid	(76)	(7)
Discontinued operations (Note 4)	(46)	-
At 31 December	182	239

Employee termination benefits

In accordance with existing social legislation in Turkey, the Bank and its subsidiaries incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL 2.52 and TL 2.37 at 31 December 2010 and 2009, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the consolidated financial statements as at 31 December 2010 and 2009, the Group reflected a liability calculated using the Projected Unit Credit Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds at the balance sheet date. The annual ceiling has been increased to TL 2.62 effective 1 January 2011.

The principal actuarial assumptions used at the balance sheet dates are as follows:

	2010	2009
Discount rate	5.10%	5.92%
Expected rates of salary/limit increases	4.66%	4.80%

Actuarial gains / losses arising from changes in discount rates and expected rates of salary / limit increases and other demographic assumptions are recognised in the consolidated income statement in the period they occur.

Other

Other provision includes upper-management and employees bonus provision which was calculated on defined criteria and targets.

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

	2010		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.

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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	3,748	-	3,748
Foreign currency translation	-	(273)	(273)
At 31 December 2010	3,348	(11,135)	(7,787)

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

In accordance with the decision taken in Extra Ordinary General Assembly, held on 18 August 2010, the Parent Bank distributed dividend to its shareholders amounting to TL 5,337.

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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 (2009 – 69.83% and 30.17%, respectively). The ultimate controlling shareholder of the Group is Bank Hapoalim. For the purpose of these consolidated 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 year-end and relating expense and income for the year-end 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 year	-	4,291	-	-	-	-
Interest income	302	42	-	-	-	-

As at 31 December 2010, no provisions have been recognised in respect of loans given to related parties (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 year	-	82,910	-	-	69,966	117,669
Interest expense	639	5,892	-	-	3,513	4,316

Other balances with related parties:

Related party		Due from banks		Finance lease receivables	Other assets	Other liabilities	Non-cash loans
		Deposits					
Shareholders	2010	-	-	-	-	404	98,277
	2009	320	-	-	-	13,205	93,330
Others	2010	18	426	-	5	363	196
	2009	120	580	-	6	2,515	-
Directors and key management personnel	2010	-	24	-	-	112	-
	2009	-	35	-	-	27	-

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2010***(Currency - In thousands of Turkish Lira)***26. 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	2010	10	-	(749)	329	-
	2009	-	43	(1,642)	372	-
Others	2010	29	-	(15)	2	-
	2009	(56)	248	(381)	1	(160)

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 5,693 (2009 – TL 4,774) comprising salaries and other short-term benefits.

27. 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:

	2010	2009
Letters of guarantee	462,272	421,910
Letters of credit	50,941	65,024
Other guarantees	-	15,057
Commitments	3,395	1,479
Total non-cash loans	516,608	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 31 December 2010, the Group has non-cancellable operating lease agreements amounting to TL 3,508 (2009 – TL 3,595).

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27. Commitments and contingencies (continued)

Litigation

There were a number of legal proceedings outstanding against the Group as at 31 December 2010 totalling TL 302 (2009 – TL 472) of which TL 198 (2009 – TL 198) provision has been made.

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 consolidated financial statements.

The Group also manages 3 open-ended investment funds (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 31 December 2010, total size of investment funds is amounting to TL 693 (2009 – TL 1,920). Management fee and commission income received from investment funds amounted to TL 16 (2009 – TL 28). As at 31 December 2010, the Group had investment custody accounts amounting to TL 607 (2009 – TL 1,269).

28. 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.

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.

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.

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28. Financial risk management (continued)

The Bank declares its risk appetite and tolerance levels for the primary risk areas on a Board approved policy since 2009.

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 limits are set by the Board of Directors and reviewed on a regular basis

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 supervise the compliance with the limits

Permanent learning program for the Board of Directors is in place from the beginning of 2011 including the subjects risk management, corporate governance in general and corporate governance in the financial sector, Basel II, reporting standards (IFRS and BRSA) and audit

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 take 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.

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28. 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 monitors 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 31 December 2010, the share of the Group’s receivables from its top 20 credit customers in its total loan portfolio is 33% (2009 – 37%).

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

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28. 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 PD (probability of default). 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.

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

	2010	2009
Above average	42.87%	42.10%
Average	39.49%	44.58%
Below average	17.64%	13.32%
Total	100.00%	100.00%

Facility rating system was developed in 2008 and is being used for the corporate loan customers. This module, differently from the borrower 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 Group for each rating category is determined by simulating PD's of an international rating institution to the Group's rating classes using "central tendency of the Group" since the Group is lacking such historical data. Central tendency factor is calculated by correlating sectoral non-performing loans ratios of banking sector to Group 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. Requirement of facility rating of BB or higher for the new credit clients is the main principle.

Regarding retail business, application scorecards developed by Experian Scorex and decision trees developed internally are being used to evaluate retail applicants. G3 scores of Credit Bureau is used in the classification of retail customers.

Monitoring the risk

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

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At certain intervals, FX 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 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:

	2010			
	Cash	Finance lease receivables	Non-cash	Total
Electric production and supply	113,930	-	102,104	216,034
Tourism and entertainment	163,715	2,446	5,641	171,802
Public works and civil engineering	111,311	-	21,934	133,245
Commercial, mortgage, investment finance banks	-	-	123,970 ⁽¹⁾	123,970
Building contractor (general and special trade)	97,551	-	22,481	120,032
Metal and by-products	81,978	302	7,140	89,420
Personal other services	72,427	-	13,527	85,954
Trade	55,299	187	27,227	82,713
Other commercial services	59,506	102	9,832	69,440
Transportation	14,455	-	52,438	66,893
Manufacture of transport equipments	7,427	-	59,059	66,486
Other financial institutions	21,549	-	39,027	60,576
Holding companies	39,650	-	674	40,324
Food, beverage and tobacco industries	12,247	77	3,635	15,959
Machinery and equipment	535	-	13,565	14,100
Textile and clothing	8,549	-	859	9,408
Agriculture and forestry	361	-	8,646	9,007
Chemical and oil products	5,799	1,792	300	7,891
Electrical and electronic equipment	3,668	-	2,507	6,175
Non ferrous mineral products	1,176	1,075	151	2,402
Rubber and plastic products	1,323	-	-	1,323
Health service	1,117	-	-	1,117
Mining and quarrying	111	-	-	111
Other consumer loans	253,415	-	1,769	255,184
Others	317	1,275	122	1,714
Total performing loans	1,127,416	7,256	516,608	1,651,280
Interest accruals	19,262	129	-	19,391
Loans in arrears	75,712	97	-	75,809
Provision for possible loan losses	(55,182)	(7)	-	(55,189)
Total loans	1,167,208	7,475	516,608	1,691,291

⁽¹⁾ TL 21,258 and TL 98,225 of this non-cash exposure has been counter-guaranteed by the Export Import Bank of Korea and Bank Hapoalim, respectively.

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28. Financial risk management (continued)

	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.

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

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

	2010	2009
Cash loans (including financial lease receivables) under loan in arrears		
Secured by mortgages	38,295	43,944
Secured by pledge	15,343	13,764
Secured by guarantee	5,202	-
Secured by assignment and cheques	-	232
Unsecured	16,969	14,694
Total	75,809	72,634
Cash loans (including financial lease receivables) except loan in arrears		
Secured by cash	5,341	12,422
Secured by mortgages	724,273	820,343
Secured by pledge	101,491	80,978
Secured by guarantee	157,146	138,715
Secured by assignment and cheques	117,663	82,328
Unsecured	48,149	57,666
Total	1,154,063	1,192,452
Non-cash loans		
Secured by cash	6,381	7,825
Secured by mortgages	73,811	72,187
Secured by pledge	11,533	21,798
Secured by guarantee	292,386	312,126
Secured by assignment and cheques	5,090	16,582
Unsecured	127,407	72,952
Total	516,608	503,470

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28. 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.

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28. Financial risk management (continued)

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	13,227	80,731	-	-	-	-	-	-	-	-	-	93,958
Due from banks and financial institutions	40,685	7,326	-	1	269	-	-	-	-	-	-	48,281
Interbank and other money market placements	21,980	-	-	-	-	-	-	-	-	-	-	21,980
Reserve deposits at central banks	-	106,058	-	-	-	-	-	-	-	-	-	106,058
Trading assets	-	2,254	3,713	1,011	2,494	9,292	7,304	3,614	1,179	912	-	31,773
Investment securities	-	3,568	6,593	6,923	17,673	10,439	14,783	31,112	10,068	6,777	72	108,008
Loaned securities	-	-	797	1,839	-	-	362	12,416	-	4,890	-	20,304
Loans and advances to customers	-	103,476	76,075	75,812	240,495	207,223	137,437	182,579	60,670	47,177	36,264	1,167,208
Finance lease receivables	-	620	1,709	1,065	1,798	1,026	469	545	153	-	90	7,475
Property and equipment	-	-	-	-	-	-	-	-	-	-	10,433	10,433
Intangible assets	-	-	-	-	-	-	-	-	-	-	45,172	45,172
Deferred tax assets	-	-	-	-	-	-	-	-	-	-	2,164	2,164
Assets held from discontinued operations	-	-	3,970	-	-	-	-	-	-	-	-	3,970
Other assets	-	5,690	-	-	-	-	-	-	-	-	16,017	21,707
Total assets	75,892	309,723	92,857	86,651	262,729	227,980	160,355	230,266	72,070	59,756	110,212	1,688,491
Liabilities												
Deposit from other banks ⁽²⁾	426	-	-	-	-	-	-	-	-	-	-	426
Customer deposits ⁽²⁾	32,926	51,726	3,064	759	3,003	2,417	7	1	-	-	-	93,903
Other money market deposits	37,233	-	-	-	-	-	-	-	-	-	-	37,233
Trading liabilities	-	1,339	1,603	346	4,189	962	10,161	2,784	-	-	-	21,384
Funds borrowed	-	15,236	15,088	6,892	81,260	223,783	230,715	231,127	-	-	-	804,101
Debt securities issued	-	-	1,821	1,570	50,000	-	100,000	-	-	-	-	153,391
Other liabilities	22,858	59,293	849	-	25,431	6,266	-	-	-	-	2,403	117,100
Provisions	-	2,200	-	-	198	-	-	-	-	-	1,767	4,165
Current tax liabilities	-	-	2,968	-	-	-	-	-	-	-	-	2,968
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	2,236	2,236
Liabilities held from discontinued operations	-	-	2,062	-	-	-	-	-	-	-	-	2,062
Total liabilities	93,443	129,794	27,455	9,567	164,081	233,428	340,883	233,912	-	-	6,406	1,238,969
Net liquidity gap	(17,551)	179,929	65,402	77,084	98,648	(5,448)	(180,528)	(3,646)	72,070	59,756	103,806	

⁽¹⁾ Includes overnight balances.

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

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28. Financial risk management (continued)

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.

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28. Financial risk management (continued)

The table below analyses residual contractual maturities of liabilities:

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	426	426	426	-	-	-	-	-
Customer deposits	93,903	94,236	32,926	51,953	3,080	3,835	2,442	-
Interbank and other money market deposits	37,233	37,233	-	37,233	-	-	-	-
Funds borrowed	804,101	933,546	-	15,348	17,720	132,114	768,364	-
Debt securities issued	153,391	186,256	-	-	3,008	63,088	120,160	-
Current account of loan customers ⁽¹⁾	77,020	77,459	22,858	45,672	806	1,550	6,573	-
	1,166,074	1,329,156	56,210	150,206	24,614	200,587	897,539	-

⁽¹⁾ Included in other liabilities.

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:

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	5,143	-	-	-	-	-	5,143
Forward sale contract	5,131	-	-	-	-	-	5,131
Currency swap purchase	88,682	41,115	12,260	98,632	317,030	7,871	565,590
Currency swap sale	88,672	42,144	12,199	98,764	306,673	6,863	555,315
Future purchase contract	-	7,135	-	-	-	-	7,135
Future sales contract	-	7,311	-	-	-	-	7,311
Option purchase contract	-	-	-	-	61,840	-	61,840
Option sale contract	-	-	-	-	49,682	-	49,682
Interest rate cap/floor purchase contract	-	-	-	-	154,600	-	154,600
Asset purchase commitments	-	-	-	1,083	973	-	2,056
Asset sales commitments	-	-	-	973	1,083	-	2,056
	187,628	97,705	24,459	199,452	891,881	14,734	1,415,859

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
Interest rate cap/floor 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

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28. 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 31 December 2010, the highest potential loss of the securities portfolio was generated by historical simulation method as TL 487 (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 (10,187) of net loss of JSC BankPozitiv (2009 - TL (10,781)), net foreign exchange position of the group would have been TL (194) (2009 - TL (1,222)).

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28. Financial risk management (continued)

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

	USD	Euro	CHF	JPY	KZT	Others	Total
2010							
Assets							
Cash and balances with central banks	3,461	183	2	-	90,222	63	93,931
Due from banks and financial institutions	11,141	547	413	541	3	1,538	14,183
Reserve deposits at central Banks	96,431	-	-	-	1,543	-	97,974
Trading assets	913	-	-	-	-	-	913
Investment securities	7,255	-	-	-	15,235	-	22,490
Loans and advances due to customers ⁽¹⁾	455,664	301,298	25,327	9,079	20,978	120	812,466
Finance lease receivables ⁽¹⁾	445	4,892	-	-	278	-	5,615
Property and equipment	-	-	-	-	5,414	-	5,414
Intangible assets	37,906	-	-	-	1,173	-	39,079
Deferred tax assets	-	-	-	-	2,164	-	2,164
Other assets	9,408	68	26	8	7,997	217	17,724
Total assets	622,624	306,988	25,768	9,628	145,007	1,938	1,111,953
Liabilities							
Deposit from other banks ⁽²⁾	285	81	-	-	59	1	426
Customer deposits ⁽²⁾	6,881	303	-	-	85,552	1,167	93,903
Trading liabilities	1,510	327	-	-	-	-	1,837
Funds borrowed	703,374	100,365	-	-	-	-	803,739
Other liabilities ⁽³⁾	60,959	14,720	81	260	707	107	76,834
Provisions	-	-	-	-	83	-	83
Total liabilities	773,009	115,796	81	260	86,401	1,275	976,822
Gross exposure	(150,385)	191,192	25,687	9,368	58,606	663	135,131
Off-balance sheet position							
Net notional amount of derivatives	80,594	(190,490)	(25,820)	(9,348)	-	(448)	(145,512)
Net exposure⁽⁴⁾	(69,791)	702	(133)	20	58,606	215	(10,381)

⁽¹⁾ Foreign currency net non-performing loans, advances to customer and finance lease receivables amounting TL 1,529 and TL 90 are included at foreign currency position, respectively.

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

⁽³⁾ Currency translation loss regarding the accounting of foreign subsidiary, JSC BankPozitiv, amounting TL 11,135 was included at foreign currency position.

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

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28. Financial risk management (continued)

Currency risk (continued)

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 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 currency 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 year:

	Average rate		Reporting rate	
	2010	2009	2010	2009
USD/TL	1.4987	1.5459	1.5460	1.5057
EUR/TL	1.9881	2.1509	2.0491	2.1603
TL/KZT	0.0105	0.0101	0.0105	0.0101

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A 10% weakening of TL against the foreign currencies at 31 December 2010 and 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.

2010	Equity	Profit or loss
USD	(5,960)	(5,960)
EUR	70	70
Other currencies	5,871	5,871
	(19)	(19)
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 31 December 2010 and 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 and 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.

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28. 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:

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	80,731	-	-	-	-	-	-	-	-	13,227	93,958
Due from banks and financial institutions	38,538	-	-	-	-	-	-	-	-	9,743	48,281
Interbank and other money market placements	21,980	-	-	-	-	-	-	-	-	-	21,980
Reserve deposits at central banks	-	-	-	-	-	-	-	-	-	106,058	106,058
Trading assets	2,254	3,795	3,078	2,494	9,283	7,269	1,739	949	912	-	31,773
Investment securities	10,591	50,274	34,319	4,162	8,590	-	-	-	-	72	108,008
Loaned securities	-	9,046	11,258	-	-	-	-	-	-	-	20,304
Loans and advances to customers	202,357	114,915	68,955	190,311	165,015	117,547	171,840	54,307	45,697	36,264	1,167,208
Finance lease receivables	186	4,297	785	398	553	469	545	152	-	90	7,475
Property and equipment	-	-	-	-	-	-	-	-	-	10,433	10,433
Intangible assets	-	-	-	-	-	-	-	-	-	45,172	45,172
Deferred tax assets	-	-	-	-	-	-	-	-	-	2,164	2,164
Assets held from discontinued operations	-	3,970	-	-	-	-	-	-	-	-	3,970
Other assets	-	-	-	-	-	-	-	-	-	21,707	21,707
Total assets	356,637	186,297	118,395	197,365	183,441	125,285	174,124	55,408	46,609	244,930	1,688,491
Liabilities											
Deposit from other banks ⁽¹⁾	-	-	-	-	-	-	-	-	-	426	426
Customer deposits ⁽¹⁾	51,726	3,064	759	3,003	2,417	7	1	-	-	32,926	93,903
Other money market deposits	37,233	-	-	-	-	-	-	-	-	-	37,233
Trading liabilities	1,339	1,603	346	4,189	962	10,161	2,784	-	-	-	21,384
Funds borrowed	28,353	70,502	21,236	11,748	214,028	227,107	231,127	-	-	-	804,101
Debt securities issued	-	1,821	1,570	50,000	-	100,000	-	-	-	-	153,391
Other liabilities	46,470	793	-	25,519	6,266	-	-	-	-	38,052	117,100
Provisions	-	-	-	-	-	-	-	-	-	4,165	4,165
Current tax liabilities	-	-	-	-	-	-	-	-	-	2,968	2,968
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	2,236	2,236
Liabilities held from discontinued operations	-	2,062	-	-	-	-	-	-	-	-	2,062
Total liabilities	165,121	79,845	23,911	94,459	223,673	337,275	233,912	-	-	80,773	1,238,969
Balance sheet interest sensitivity gap	191,516	106,452	94,484	102,906	(40,232)	(211,990)	(59,788)	55,408	46,609	164,157	
Off-balance sheet interest sensitivity gap, net	15,503	45,334	65	(130)	(35,605)	(17,097)	216	994	1,007	-	
Total interest sensitivity gap	207,019	151,786	94,549	102,776	(75,837)	(229,087)	(59,572)	56,402	47,616	164,157	

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

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28. Financial risk management (continued)

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.

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The Bank's value at market risks as of 31 December 2010 and 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:

	2010			2009		
	Average	Highest	Lowest	Average	Highest	Lowest
Interest rate risk	7,146	7,816	6,579	5,356	9,194	1,757
Common share risk	-	-	-	-	-	-
Currency risk	1,118	1,760	402	822	1,481	147
Total value-at-risk	8,264	9,576	6,981	6,178	10,675	1,904

Exposure to interest rate risk – non-trading portfolios

Interest rate sensitivity of the banking book is calculated as the difference of discounted cash flows of assets and liabilities. With this method, the future changes of interest rates and their affects on the cash flow of asset and liabilities are simulated and the influence of these changes on the interest income and equity of the Bank is assessed. The exercise is subject to PV01 and worst case scenario limit 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/Total Equity (%)	2010	2009
Local TL interest rate		
+100 bps	(0.84)	(0.60)
-100 bps	0.88	0.63
+500 bps	(3.83)	(2.73)
Foreign currency interest rate		
+100 bps	1.04	0.60
-100 bps	(1.11)	(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 31 December 2010 and 2009 are as follows:

	2010	2009
Amount subject to credit risk (I)	1,259,515	1,257,351
Amount subject to market risk (II)	183,800	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+III)	1,654,278	1,578,676
Shareholders' equity	403,013	385,832
Tier 1 capital	454,823	435,224
Tier 2 capital	-	-
Deductions from capital	(51,810)	(49,392)
Total regulatory capital	403,013	385,832
Capital adequacy ratio	24.36%	24.44%
Tier-1 ratio	27.49%	27.57%

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Within the risk management framework of the Bank, a comprehensive internal capital adequacy assessment process (ICAAP) is performed which is reviewed and approved by Board of Directors since 2009.

29. Fair value of financial instruments**Fair values**

Set out below is a comparison by category of carrying amounts and fair values of the Group's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	Carrying amount		Fair value	
	2010	2009	2010	2009
Financial assets				
Cash and balances with central banks	93,958	53,336	93,958	53,336
Due from banks and financial institutions	48,281	25,507	48,281	25,507
Interbank and other money market placements	21,980	23,559	21,980	23,559
Reserve deposits at central banks	106,058	86,033	106,058	86,033
Trading assets	31,773	20,373	31,773	20,373
Investment securities – AFS portfolio	108,008	43,895	108,008	43,895
Investment securities – HTM portfolio	-	42,776	-	45,144
Loaned securities	20,304	26,435	20,304	26,435
Receivables from customers due to brokerage activities	-	480	-	526
Loans and advances to customers	1,167,208	1,206,781	1,303,272	1,336,102
Finance lease receivables	7,475	9,814	7,920	10,159
	1,605,045	1,538,989	1,741,554	1,671,069
Financial liabilities				
Deposits from other banks	426	580	426	580
Customer deposits	93,903	64,080	94,063	64,147
Other money market deposits	37,233	44,441	37,217	44,428
Trading liabilities	21,384	14,500	21,384	14,500
Funds borrowed	804,101	943,634	906,115	1,016,676
Debt securities issued	153,391	51,633	161,572	54,253
Current accounts of loan customers ⁽¹⁾	77,020	61,535	77,256	60,421
	1,187,458	1,180,403	1,298,033	1,255,005

⁽¹⁾ Included in other liabilities.

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The Group's accounting policy on fair value measurements is discussed in accounting policy 3.8.

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1: Quoted market price (unadjusted) in an active market for identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments using valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like forwards and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt securities. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

This table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

2010	Level 1	Level 2	Level 3	Total
Trading assets	2,149	29,624	-	31,773
Investment and loaned securities – AFS portfolio	128,240	-	-	128,240
	130,389	29,624	-	160,013
Trading liabilities	-	21,384	-	21,384
	-	21,384	-	21,384
2009	Level 1	Level 2	Level 3	Total
Trading assets	3,858	16,515	-	20,373
Investment and loaned securities – AFS portfolio	70,254	-	-	70,254
	74,112	16,515	-	90,627
Trading liabilities	-	14,500	-	14,500
	-	14,500	-	14,500

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29. Fair value of financial instruments (continued)

Loans and advances

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Finance lease receivables

Estimated fair value of lease contracts receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

Customer deposits, other money market deposits, debt securities issued, funds borrowed and current accounts of loan customers

The estimated fair value of fixed interest bearing customer deposits, other money market deposits, debt securities issued and current accounts of loan customers without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

The estimated fair value of fixed interest bearing funds borrowed is based on discounted cash flows using interest rates for new debts with similar remaining maturity and the estimated fair value of floating interest bearing funds borrowed are equal to their carrying value.

Fair values of remaining financial assets and liabilities carried at cost, including cash and balances with central banks, due from banks and financial institutions, interbank and other money market placements, reserve deposits at central banks, deposits from other banks are considered to approximate their respective carrying values due to their short-term nature.

30. Operating segments

The Group has five reportable segments, namely asset management and treasury, corporate banking, retail banking, foreign financial subsidiary (includes activities of JSC BankPozitiv) and non-financial services (includes activities of C Bilişim), which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting structure. The following table summarises the Group's operating segments details:

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2010	Asset management and treasury	Corporate banking	Retail banking	Foreign Financial Subsidiary	Non-financial services	Discontinued operations	Eliminations	Total
Interest income	26,117	74,089	38,858	6,018	54	-	(514)	144,622
Interest expense	(73,649)	(1,508)	(10)	(1,544)	-	-	526	(76,185)
Intersegment revenue	47,872	(32,846)	(15,026)	-	-	-	-	-
Net interest income	340	39,735	23,822	4,474	54	-	12	68,437
Net fee and commission income	(600)	10,331	6,046	1,863	-	-	(4)	17,636
Net trading income and foreign exchange gain, net	12,086	295	8	2,969	(15)	-	11	15,354
Other operating income	312	575	547	495	4,365	-	(4,177)	2,117
Total operating income	12,138	50,936	30,423	9,801	4,404	-	(4,158)	103,544
Net impairment loss on financial and non-financial assets	4,940	(14,267)	(985)	2,821	-	-	685	(6,806)
Total operating expense	(12,482)	(10,141)	(29,311)	(11,854)	(4,098)	-	3,853	(64,033)
Profit before income tax	4,596	26,528	127	768	306	-	380	32,705
Income tax	(986)	(5,615)	(27)	(184)	(37)	-	(9)	(6,858)
Net profit for the year from continuing operations	3,610	20,913	100	584	269	-	371	25,847
Loss from discontinued operations	-	-	-	-	-	(717)	32	(685)
Net profit for the year	3,610	20,913	100	584	269	(717)	403	25,162

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes To The Consolidated Financial Statements

As at and for the year ended 31 December 2010

(Currency - In thousands of Turkish Lira)

31. Rating

As at 31 December 2010, the Bank's ratings assigned by international rating agencies, Fitch Ratings and Moody's Ratings are as follows:

Fitch Ratings, November 2010

Long Term Foreign Currency IDR	BBB- (Stable)
Short Term Foreign Currency IDR	F3
Individual Rating	D
Support	2
Long Term Local Currency IDR	BBB- (Stable)
Short Term Local Currency	F3
National	AAA (tur) (Stable)

Moody's Ratings, January 2011

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

32. Subsequent and other events

According to change in "Communiqué on required reserves" numbered 2005/1 dated 24 January 2011, the Turkish lira required reserve ratio was increased to 9% to be effective as of the calculation period of 4 February 2011.