



Bankpozitif Kredi ve Kalkınma Bankası Anonim Şirketi

**Consolidated Financial Statements
As at and for the Year Ended
31 December 2012
With Independent Auditors' Report**

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi

20 February 2013

This report contains 2 pages of independent auditors' report and 68 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;

Report on the Consolidated Financial Statements

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 statement of financial position as at 31 December 2012, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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



Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2012, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Aklis Baqumny Dcutlon ne SUMM AP

20 February 2013
Istanbul, Turkey

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Consolidated Statement of Financial Position****As at 31 December 2012***(Currency - In thousands of Turkish Lira)*

	<i>Note</i>	Audited 2012	Audited 2011
ASSETS			
Cash and balances with central banks	10	33,900	77,011
Due from banks and financial institutions	10	17,490	46,545
Interbank and other money market placements	10	9,007	-
Reserve deposits at central banks	11	102,078	102,012
Trading assets	12	20,841	39,965
Investment securities	13	140,915	116,160
Loaned securities	13	90,031	78,759
Loans and finance lease receivables	14	1,309,202	1,493,711
Property and equipment	15	9,181	9,202
Intangible assets	16	52,426	54,348
Current tax assets	9	-	5,969
Deferred tax assets	9	7,010	2,426
Other assets	17	48,441	33,946
Total assets		1,840,522	2,060,054
LIABILITIES			
Deposit from other banks	18	2,812	25
Customer deposits	18	60,050	81,850
Other money market deposits	18	89,935	78,772
Trading liabilities	12	33,076	41,999
Funds borrowed	19	857,569	1,237,222
Debt securities issued	20	249,696	101,907
Other liabilities	21	61,161	69,739
Provisions	22	5,441	2,707
Current tax liabilities	9	1,430	88
Deferred tax liabilities	9	-	2,969
Total liabilities		1,361,170	1,617,278
EQUITY			
Share capital and share premium	23	379,114	379,114
Legal reserves		13,281	13,151
Available-for-sale reserve, net of tax	23	5,396	711
Currency translation reserve	23	(9,992)	(17,770)
Retained earnings		91,553	67,570
Total equity		479,352	442,776
Total equity and liabilities		1,840,522	2,060,054

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Consolidated Statement of Profit or Loss****For the year ended 31 December 2012***(Currency - In thousands of Turkish Lira)*

		Audited	Audited
	<i>Note</i>	2012	2011
Interest income			
Interest income on loans and finance lease receivables		133,209	130,573
Interest income on deposits with other banks and financial institutions		2,140	1,669
Interest income on securities		20,517	11,116
Interest income on interbank and other money market placements		4,453	1,318
Other interest income		13,003	13,781
Total interest income		173,322	158,457
Interest expense			
Interest expense on deposits		(429)	(469)
Interest expense on other money market deposits		(9,926)	(2,352)
Interest expense on funds borrowed		(59,308)	(66,847)
Interest expense on debt securities issued		(18,214)	(14,612)
Other interest expense		(10,650)	(11,047)
Total interest expense		(98,527)	(95,327)
Net interest income		74,795	63,130
Fees and commission income	4	12,123	18,929
Fees and commission expense	4	(1,735)	(1,780)
Net fee and commission income		10,388	17,149
Net trading income and foreign exchange gain, net	5	7,748	531
Other operating income	6	4,741	2,839
Total operating income		97,672	83,649
Net impairment loss on financial and non-financial assets	14	(8,369)	(2,813)
Personnel expenses	7	(30,004)	(35,243)
Depreciation and amortisation	15 and 16	(5,250)	(6,718)
Administrative expenses	8	(19,557)	(19,647)
Taxes other than on income		(1,765)	(2,193)
Other expenses		(2,266)	(4,740)
Total operating expense		(58,842)	(68,541)
Profit before income tax		30,461	12,295
Income tax	9	(6,348)	(2,499)
Net profit for the year		24,113	9,796

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 2012***(Currency - In thousands of Turkish Lira)*

	Audited	Audited
	2012	2011
Profit for the year	24,113	9,796
Other comprehensive income		
Foreign currency translation differences for foreign operations	7,778	(6,635)
Available-for-sale reserve		
Net change in fair value of available-for-sale financial assets	5,348	(4,244)
Net change in fair value of available-for-sale financial assets transferred to profit or loss	508	951
Income tax on other comprehensive income	(1,171)	656
Other comprehensive income for the year, net of income tax	12,463	(9,272)
Total comprehensive income for the year	36,576	524

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 2012

(Currency - In thousands of Turkish Lira)

	Note	Share capital	Share premium	Adjustment to share capital	Legal reserves	Available-for-sale reserve, net of tax	Currency translation reserve	Retained earnings	Total
At 1 January 2011		337,292	20,121	21,701	11,755	3,348	(11,135)	63,269	446,351
Total comprehensive income for the year									
Profit for the year		-	-	-	-	-	-	9,796	9,796
Other comprehensive income									
Foreign currency translation differences	23	-	-	-	-	-	(6,635)	-	(6,635)
Net change in fair value of available-for-sale financial assets, net of tax	23	-	-	-	-	(2,637)	-	-	(2,637)
Total other comprehensive income		-	-	-	-	(2,637)	(6,635)	-	(9,272)
Total comprehensive income for the year		-	-	-	-	(2,637)	(6,635)	9,796	524
Other changes due to the disposal of the subsidiary		-	-	-	(166)	-	-	151	(15)
Contributions by and distributions to owners									
Dividends to equity holders	23	-	-	-	-	-	-	(4,084)	(4,084)
Total contributions by and distributions to owners		-	-	-	-	-	-	(4,084)	(4,084)
Transfers		-	-	-	1,562	-	-	(1,562)	-
At 31 December 2011		337,292	20,121	21,701	13,151	711	(17,770)	67,570	442,776
At 1 January 2012		337,292	20,121	21,701	13,151	711	(17,770)	67,570	442,776
Total comprehensive income for the year									
Profit for the year		-	-	-	-	-	-	24,113	24,113
Other comprehensive income									
Foreign currency translation differences	23	-	-	-	-	-	7,778	-	7,778
Net change in fair value of available-for-sale financial assets, net of tax	23	-	-	-	-	4,685	-	-	4,685
Total other comprehensive income		-	-	-	-	4,685	7,778	-	12,463
Total comprehensive income for the year		-	-	-	-	4,685	7,778	24,113	36,576
Contributions by and distributions to owners									
Dividends to equity holders	23	-	-	-	-	-	-	-	-
Total contributions by and distributions to owners		-	-	-	-	-	-	-	-
Transfers		-	-	-	130	-	-	(130)	-
At 31 December 2012		337,292	20,121	21,701	13,281	5,396	(9,992)	91,553	479,352

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 2012***(Currency - In thousands of Turkish Lira)*

		Audited	Audited
	<i>Note</i>	2012	2011
Cash flows from operating activities			
Interest received		180,102	152,327
Interest paid		(92,966)	(93,491)
Fees and commissions received		10,486	19,546
Trading income		4,026	740
Recoveries from non-performing loans		16,066	18,445
Fees and commissions paid		(2,746)	(586)
Cash payments to employees and other parties		(27,118)	(37,031)
Cash received from other operating activities		4,718	7,743
Cash paid for other operating activities		(23,717)	(25,658)
Income taxes paid		(4,993)	(8,920)
		63,858	33,115
Change in banks and financial institutions		68	3,052
Change in trading assets		(167)	3,372
Change in reserve deposits at central banks		(66)	4,038
Change in loans and finance lease receivables		181,762	(356,610)
Change in other assets		(16,842)	(14,591)
Change in deposit from other banks		2,787	(401)
Change in customer deposits		(21,800)	(12,053)
Change in interbank and other money market deposits		11,180	41,484
Change in other liabilities		(7,374)	(50,384)
Net cash provided by / (used in) operating activities		213,406	(348,978)
Cash flows from investing activities			
Purchases of investment securities	13	(494,844)	(220,302)
Proceeds from sale and redemption of investment securities	13	463,560	158,276
Purchases of property and equipment	15	(3,517)	(1,439)
Proceeds from the sale of premises and equipment	15	222	141
Purchases of intangible assets	16	(3,751)	(2,861)
Net cash used in investing activities		(38,330)	(66,185)
Cash flows from financing activities			
Proceeds from issue of debt securities		142,956	-
Repayment of debt securities		-	(50,000)
Proceeds from funds borrowed		2,195,510	2,071,287
Repayment of funds borrowed		(2,575,476)	(1,641,103)
Dividends paid		-	(4,084)
Net cash (used in) / provided by financing activities		(237,010)	376,100
Effect of net foreign exchange difference on cash and cash equivalents		(1,150)	1,478
Net decrease in cash and cash equivalents		(63,084)	(37,585)
Cash and cash equivalents at 1 January	10	122,990	160,575
Cash and cash equivalents at 31 December	10	59,906	122,990

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 2012

(Currency - In thousands of Turkish Lira)

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BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2012

(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.. 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”) acquired 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 concerning the new partnership have been obtained from Israeli and Turkish authorities in 2006 and extraordinary general assembly of the Bank was convened on 31 October 2006.

On 8 April 2008, Tarshish’s share in BankPozitif increased to 65.00% by way of share capital increase. On 7 April 2009, Tarshish acquired 4.825% shares of BankPozitif from C Faktoring A.Ş. and Tarshish’s share in BankPozitif increased to 69.83%.

As at 31 December 2012, 69.83% (2011 – 69.83%) of the shares of the Bank belong to Tarshish and are controlled by Bank Hapoalim and 30.17% (2011 – 30.17%) of the shares belong to C Faktoring A.Ş.

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2012

(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 consumer loans, home equity, mortgages, and vehicle 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, credit cards, cash payment and other banking services for its commercial and retail customers through its head office and three branches located in Kazakhstan.

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.

As at 31 December 2012, the Bank provides services through its head office. As at 31 December 2012, the number of employees for the Bank and its consolidated subsidiaries are 129 and 234, respectively (2011 – 135 and 188).

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 2012 and 2011 are as follows:

	Place of incorporation	Principal activities	Effective shareholding and voting rights (%)	
			2012	2011
C Bilişim	Istanbul/Turkey	Software development and technology	100	100
JSC BankPozitiv	Almaty/Kazakhstan	Commercial banking activities	100	100

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Consolidated Financial Statements As at and for the year ended 31 December 2012

(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 as at 31 December 2012 of the Bank are authorised for issue by the management on 20 February 2013. 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 statements presented in TL has been rounded to the nearest thousand.

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.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Consolidated Financial Statements As at and for the year ended 31 December 2012

(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)*

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 2012 was TL 43,585 (2011 – TL 46,745).

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 and finance lease receivables as at 31 December 2012 is TL 1,309,202 (2011 – TL 1,493,711) net of impairment allowance of TL 32,023 (2011 – TL 60,414).

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 2012, the carrying amount of derivative financial instrument assets TL 20,018 (2011 – TL 39,306) and the carrying amount of derivative financial instrument liabilities is TL 33,076 (2011 – TL 41,999).

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 2012, the Group has net current tax liabilities amounting to TL 1,430 (2011 – TL 5,881 net current tax assets).

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 2012, the Group carries a net deferred tax assets amounting to TL 7,010 (2011 – TL 543, deferred tax liabilities).

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2012

(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)*

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 2012 is TL 180 (2011 – TL 121).

Critical accounting judgements in applying the Group's accounting policies

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

Financial asset and liability classification

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

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

3. Significant accounting policies

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

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.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2012

(Currency - In thousands of Turkish Lira)

3. Significant accounting policies (continued)

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.

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

	USD / TL (full)	EUR / TL (full)	USD / KZT (full)
31 December 2010	1.5460	2.0491	147.50
31 December 2011	1.9065	2.4592	148.40
31 December 2012	1.7776	2.3452	150.74

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 reserve.

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.

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3. Significant accounting policies (continued)

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.

3.4 Fees and commission

Fees and commission 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. Fees and commission arising from negotiating or participating in the negotiation of a transaction for a third party are recognised on completion of the underlying transaction.

Fees 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 reporting 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.

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3. Significant accounting policies (continued)

3.7 Income tax expense (continued)

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

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities, and deferred taxes relate to the same taxable entity and the same taxation authority.

3.8 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 financial position. 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.

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.

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3. Significant accounting policies (continued)

3.8 Financial assets and liabilities (continued)

Identification and measurement of impairment (continued)

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 finance lease receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the assets' 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 finance lease receivables.

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.

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.

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3. Significant accounting policies *(continued)*

3.8 Financial assets and liabilities *(continued)*

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.

3.11 Due from banks and financial institutions and loans and finance lease receivables

"Due from banks and financial institutions" and "Loans and finance lease receivables" 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 finance lease receivables 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 statement of income. The losses arising from impairment are recognised in the consolidated statement of income in "Net impairment loss on financial assets".

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3. Significant accounting policies (continued)

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.

Fair value through profit or loss

As at 31 December 2012, the Group does not have any investment securities at fair value through profit or loss (2011 – 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.

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.

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3. Significant accounting policies (continued)

3.13 Property and equipment (continued)

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 reviewed at each financial year end and adjusted if appropriate.

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.

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3. Significant accounting policies (continued)

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.

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.

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3. Significant accounting policies (continued)

3.17 Impairment of non-financial assets (continued)

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

3.18 Deposits, funds borrowed and debt securities issued

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

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

3.19 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.

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3. Significant accounting policies *(continued)*

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 statements is available.

3.23 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2012, and have not been applied in preparing these consolidated financial statements. None of these will have an effect on the consolidated financial information of the Group, with the exception of:

IAS 27 Separate Financial Statements (Amended)

As a consequential amendment to IFRS 10 and IFRS 12, the IASB also amended IAS 27, which is now limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. Transitional requirement of this amendment is similar to IFRS 10. This amendment will not have any impact on the financial position or performance of the Group.

IAS 28 Investments in Associates and Joint Ventures (Amended)

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

IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial liabilities (Amended)

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

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3.23 New standards and interpretations not yet adopted (continued)

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

New disclosures would provide users of financial statements with information that is useful in

(a) evaluating the effect or potential effect of netting arrangements on an entity's financial position and (b) analysing and comparing financial statements prepared in accordance with IFRSs and other generally accepted accounting standards. The amendments are to be retrospectively applied for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The amendment affects disclosures only and will have no impact on the financial position or performance of the Group.

IFRS 9 Financial Instruments – Classification and measurement

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

IFRS 10 Consolidated Financial Statements

The standard is effective for annual periods beginning on or after 1 January 2014 and is applied on a modified retrospective basis. This new Standard may be adopted early, but IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities should be also adopted early.

IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. A new definition of control is introduced, which is used to determine which entities are consolidated. This is a principle based standard and require preparers of financial statements to exercise significant judgment. This amendment will not have any impact on the financial position or performance of the Group.

IFRS 11 Joint Arrangements

The standard is effective for annual periods beginning on or after 1 January 2014 and is applied on a modified retrospective basis. This new standard may be adopted early, but IFRS 10 Consolidated Financial Statements and IFRS 12 Disclosure of Interests in Other Entities should be also adopted early.

The standard describes the accounting for joint ventures and joint operations with joint control. Among other changes introduced, under the new standard, proportionate consolidation is not permitted for joint ventures. The Group does not expect that this standard will have any impact on the financial position or performance of the Group.

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

IFRS 12 Disclosure of Interests in Other Entities

The standard is effective for annual periods beginning on or after 1 January 2014 and is applied on a modified retrospective basis. This new standard may be adopted early, but IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements should be also adopted early.

IFRS 12 includes all of the disclosures that were previously in IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 Interests in Joint Ventures and IAS 28 Investment in Associates. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. Under the new standard the Group will provide more comprehensive disclosures for interests in other entities.

IFRS 13 Fair Value Measurement

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

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	2012	2011
Fee and commission income		
Financial guarantee contracts issued	5,051	6,136
Credit related fees and commissions	4,000	8,553
Banking service commissions	2,544	2,938
Other	528	1,302
Total fee and commission income	12,123	18,929
Fee and commission expense		
Derivative transaction fees and commissions	(372)	(375)
Corresponding bank fees	(301)	(320)
Other	(1,062)	(1,085)
Total fee and commission expense	(1,735)	(1,780)
Net fee and commission income	10,388	17,149

5. Net trading income and net foreign exchange gain

	2012	2011
Income from investment securities, net	3,729	513
Foreign exchange gains / (losses), net	3,721	(209)
Income from trading securities, net	298	227
Total	7,748	531

6. Other operating income

	2012	2011
Software sales and rental income	2,563	810
Fixed assets sales income	315	341
Other	1,863	1,688
Total	4,741	2,839

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7. Personnel expenses

	2012	2011
Wages and salaries	26,310	30,264
Other fringe benefits	1,173	2,290
Compulsory social security obligations	1,520	2,144
Provision for employee termination and vacation benefits	154	145
Other benefits / provisions	847	400
Total	30,004	35,243

The number of employees for the years is:

	2012	2011
The Bank	129	135
Subsidiaries	234	188
Total	363	323

8. Administrative expenses

	2012	2011
Consultancy expense	4,706	4,731
Operating lease expenses	3,048	3,759
Communication expenses	3,026	2,590
Advertising expenses	2,256	1,151
Information technology expenses	1,638	2,265
Insurance expenses	659	641
Traveling expenses	618	695
Lightening expenses	582	618
Transportation expenses	559	685
Others	2,465	2,512
Total	19,557	19,647

9. 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 reporting 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 financial position, has been calculated on a separate-entity basis.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2012***(Currency - In thousands of Turkish Lira)***9. Taxation (continued)**

As at 31 December 2012 and 2011, the corporate tax rate for foreign subsidiary in Kazakhstan is 20%.

As at 31 December 2012 and 2011, prepaid income taxes are netted off with the current tax liability as stated below:

	2012	2011
Income tax liability	(7,283)	(88)
Prepaid income tax	5,853	5,969
Current tax assets / (liabilities)	(1,430)	5,881

Income tax recognised in the statement of income

The components of income tax expense as stated below:

	2012	2011
Current tax expense		
Current year	(3,332)	(8,595)
Deferred tax (expense) / income		
Relating to origination and reversal of temporary differences	(3,016)	6,096
Income tax expense reported in the statement of income	(6,348)	(2,499)

Reconciliation of effective tax rate

The Group's effective tax rate in respect of continuing operations as at 31 December 2012 is 20.84% (31 December 2011 - 20.33%). Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate of the parent for the years ended 31 December 2012 and 2011 is as follows:

	2012	2011
Profit before income tax	30,461	12,295
Income tax using the domestic corporation tax rate 20%	(6,092)	(2,459)
Addition due to the sale/liquidation of subsidiaries	-	43
Non-deductible expenses	(316)	(165)
Tax exempt income	60	82
Total income tax expense in the statement of income	(6,348)	(2,499)

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2012***(Currency - In thousands of Turkish Lira)***9. Taxation (continued)****Deferred tax assets and liabilities****Recognised deferred tax assets and liabilities**

The deferred tax included in the consolidated financial position 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
	2012	2012	2012	2011	2011	2011
Reserve for loan losses	2,879	(1,692)	(679)	3,326	(1,593)	394
Derivative financial instruments	6,537	(4,004)	1,914	8,400	(7,781)	2,267
Liability for defined benefit plans	1,064	-	551	513	-	(315)
Property and equipment	169	(249)	91	43	(229)	358
Tax losses	2,649	-	(3,904)	5,092	-	1,245
Valuation of investment securities ⁽¹⁾	-	(31)	-	110	-	-
Others	1,653	(1,965)	(989)	2,876	(11,300)	2,147
Deferred tax asset / (liability)	14,951	(7,941)		20,360	(20,903)	
Set off of tax	(7,941)	7,941		(17,934)	17,934	
Net tax asset / (liability)	7,010	-		2,426	(2,969)	
Deferred tax income / (expense)			(3,016)			6,096

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

Reflected as:

	2012	2011
Deferred tax assets	7,010	2,426
Deferred tax liabilities	-	(2,969)

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

	2012	2011
Deferred tax assets, net at 1 January	(543)	721
Deferred tax recognised in the statement of income	(3,016)	6,096
Deferred income tax recognised in equity	10,760	(7,851)
Exchange rate differences	(191)	491
Deferred tax assets/(liabilities), net at the end of the year	7,010	(543)

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As at and for the year ended 31 December 2012***(Currency - In thousands of Turkish Lira)***10. Cash and cash equivalents**

	2012	2011
Cash and balances with central banks	33,900	77,011
- <i>Cash on hand</i>	2,723	3,081
- <i>Balances with central banks</i>	31,177	73,930
Due from banks and financial institutions	17,490	46,545
Interbank and other money market placements	9,007	-
Cash and cash equivalents in the statement of financial position	60,397	123,556
Less: Due from banks with original maturities of more than 3 months and restricted balance	(491)	(566)
Cash and cash equivalents in the statement of cash flow	59,906	122,990

11. Reserve deposits at central banks

	2012	2011
Turkish Lira	8,731	5,751
Foreign currency	93,347	96,261
	102,078	102,012

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 2012 and 2011, the interest rates applied both domestic and foreign subsidiary’s reserve deposits is zero.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2012***(Currency - In thousands of Turkish Lira)***12. Trading assets and liabilities**

	2012	2011
Debt instruments		
Turkish government bonds-TL denominated	823	659
Derivative transactions		
Derivative financial instruments	20,018	39,306
Total trading assets	20,841	39,965
Derivative transactions		
Derivative financial instruments	33,076	41,999
Total trading liabilities	33,076	41,999

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.

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

	2012		
	Fair value assets	Fair value liabilities	Notional amount in TL equivalent
Derivatives held for trading			
Forward purchase contracts	-	108	37,415
Forward sale contracts	167	-	37,353
Currency swap purchases	5,694	1,954	575,936
Currency swap sales	14,157	31,014	588,054
Interest rate cap/floor purchase contracts	-	-	177,760
Total derivatives held for trading	20,018	33,076	1,416,518

	2011		
	Fair value assets	Fair value liabilities	Notional amount in TL equivalent
Derivatives held for trading			
Forward purchase contracts	1	158	55,212
Forward sale contracts	164	-	55,206
Currency swap purchases	22,573	2,905	477,875
Currency swap sales	16,167	38,936	476,296
Interest rate cap/floor purchase contracts	-	-	190,650
Options	401	-	136,149
Total derivatives held for trading	39,306	41,999	1,391,388

The Group undertakes all of its transactions in derivative financial instruments with banks and other financial institutions. Notional amounts and contractual maturity analysis of derivative transactions are disclosed in Note 26.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2012***(Currency - In thousands of Turkish Lira)***13. Investment and loaned securities**

	2012	2011
Available-for-sale investment securities	140,915	116,160
Loaned securities	90,031	78,759
	230,946	194,919

Held-to-maturity investment securities

As at 31 December 2012 and 2011, the Group does not have any investment securities at held-to-maturity investment securities.

Available-for-sale investment securities

	2012	2011
Available-for-sale investment securities at fair value		
Debt instruments		
Turkish government bonds – TL denominated, net	138,016	93,459
- <i>Gross amount</i>	<i>138,016</i>	<i>93,459</i>
- <i>Impairment on government bonds</i>	-	-
Foreign government bonds – KZT denominated, net	-	9,376
- <i>Gross amount</i>	-	<i>9,376</i>
- <i>Impairment on government bonds</i>	-	-
Corporate bonds–USD denominated, net	2,873	13,297
- <i>Gross amount</i>	<i>2,873</i>	<i>13,297</i>
- <i>Impairment on corporate bonds</i>	-	-
Total available-for-sale securities at fair value	140,889	116,132
Available-for-sale investment securities at cost		
Equity instruments – unlisted	26	28
Total available-for-sale securities	140,915	116,160

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(Currency - In thousands of Turkish Lira)

13. Investment and loaned securities (continued)

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

	2012	2011
Common shares of Kazakhstan Stock Exchange	26	28
	26	28

As at 31 December 2012, TL denominated available-for-sale securities comprise Turkish Government notes having a maturity range of April 2013 – February 2022. As at 31 December 2012, USD denominated investment securities comprise corporate bonds with semi-annual coupon payments having maturity of October 2015.

As at 31 December 2012, available-for-sale investment securities with carrying value of TL 52,888 (31 December 2011 - TL 38,348) 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.

Loaned securities

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

	2012	2011
Loaned securities from available-for-sale securities	90,031	78,759
Loaned securities from trading securities	-	-
Total loaned securities	90,031	78,759
Related liability (Note 18)	89,935	78,772

Repurchase agreements mature within one month.

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

	2012	2011
Balance at 1 January	194,919	128,312
Additions	494,844	220,302
Disposals (sale and redemption)	(463,560)	(158,276)
Change in interest accruals	6,461	(549)
Exchange rate differences	(1,718)	5,130
Balance at end of year end	230,946	194,919

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2012***(Currency - In thousands of Turkish Lira)***14. Loans and finance lease receivables**

2012	Turkish Lira	Foreign currency	Foreign currency indexed	Total
Corporate loans and finance lease receivables	265,689	715,742	150,182	1,131,613
Consumer loans	125,830	10,671	19,774	156,275
Total loans and finance lease receivables	391,519	726,413	169,956	1,287,888
Loans and finance lease receivables in arrears	38,303	15,034	-	53,337
Less: Specific reserve for impairment	(8,562)	(8,796)	-	(17,358)
Less: Portfolio reserve for impairment	(14,556)	(109)	-	(14,665)
	406,704	732,542	169,956	1,309,202

2011	Turkish Lira	Foreign currency	Foreign currency indexed	Total
Corporate loans and finance lease receivables	176,453	871,450	198,602	1,246,505
Consumer loans	180,984	8,686	35,007	224,677
Total loans and finance lease receivables	357,437	880,136	233,609	1,471,182
Loans and finance lease receivables in arrears	66,391	16,552	-	82,943
Less: Specific reserve for impairment	(32,634)	(10,398)	-	(43,032)
Less: Portfolio reserve for impairment	(16,629)	(753)	-	(17,382)
	374,565	885,537	233,609	1,493,711

As at 31 December 2012, loans and finance lease receivables with floating rates are TL 371,767 (2011 – TL 358,782) and fixed interest rates are TL 916,121 (2011 – TL 1,112,400).

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As at and for the year ended 31 December 2012***(Currency - In thousands of Turkish Lira)***14. Loans and finance lease receivables (continued)**

Movements in non-performing loans and finance lease receivables:

	2012	2011
Non-performing loans and finance lease receivables at 1 January	82,943	75,809
Additions to non-performing loans and finance lease receivables	44,918	25,469
Recoveries	(28,423)	(18,445)
Transfers to performing loans and finance lease receivables	(131)	(2,716)
Write-offs ⁽¹⁾	(44,850)	(169)
Exchange rate differences	(1,120)	2,995
Non-performing loans and finance lease receivables at the end of year	53,337	82,943

⁽¹⁾ TL 44,411 of non-performing loans and finance lease receivables were sold to an asset management company as at 31 December 2012.

Movements in the reserve for possible loan and finance lease receivables losses:

	2012	2011
Reserve at the beginning of the year	60,414	55,189
Provision net of recoveries	8,369	2,812
- <i>Provision for loan and finance lease receivables impairment</i>	14,285	7,456
- <i>Recoveries</i>	(5,916)	(4,644)
Write-offs ⁽¹⁾	(35,877)	(169)
Exchange rate differences	(883)	2,582
Reserve at the end of the year	32,023	60,414

⁽¹⁾ TL 35,437 of provision for non-performing loans and finance lease receivables were reversed due to selling of non-performing loans to an asset management amounting to TL 44,411 as at 31 December 2012.

As at 31 December 2012, loans and finance lease receivables on which interest is not being accrued, or where interest is suspended amounted to TL 53,337 (2011 – TL 82,943).

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15. Property and equipment

	Land and buildings	Office equipment, furniture and fixtures	Leasehold improvements	Motor vehicles	Total
Cost					
Balance at 1 January 2011	1,827	16,070	7,324	810	26,031
Additions	-	1,271	168	-	1,439
Disposals	-	(1,140)	(793)	-	(1,933)
Exchange rate differences	411	1,539	275	165	2,390
Balance at 31 December 2011	2,238	17,740	6,974	975	27,927
Balance at 1 January 2012	2,238	17,740	6,974	975	27,927
Additions	-	1,735	1,000	782	3,517
Disposals	-	(193)	(12)	(827)	(1,032)
Exchange rate differences	(183)	(482)	(111)	(74)	(850)
Balance at 31 December 2012	2,055	18,800	7,851	856	29,562
Depreciation					
Balance at 1 January 2011	(95)	(10,193)	(4,783)	(527)	(15,598)
Depreciation charge for the year	(52)	(2,142)	(1,594)	(137)	(3,925)
Disposals	-	1,070	786	-	1,856
Exchange rate differences	(17)	(800)	(142)	(99)	(1,058)
Balance at 31 December 2011	(164)	(12,065)	(5,733)	(763)	(18,725)
Balance at 1 January 2012	(164)	(12,065)	(5,733)	(763)	(18,725)
Depreciation charge for the year	(47)	(1,470)	(1,213)	(108)	(2,838)
Disposals	-	169	-	641	810
Exchange rate differences	14	219	81	58	372
Balance at 31 December 2012	(197)	(13,147)	(6,865)	(172)	(20,381)
Carrying amounts					
Balance at 31 December 2010	1,732	5,877	2,541	283	10,433
Balance at 31 December 2011	2,074	5,675	1,241	212	9,202
Balance at 31 December 2012	1,858	5,653	986	684	9,181

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As at and for the year ended 31 December 2012***(Currency - In thousands of Turkish Lira)***16. Intangible assets**

	Goodwill	Purchased software	Developed software	Total
Cost				
Balance at 1 January 2011	47,156	11,298	4,848	63,302
Additions	-	1,552	1,309	2,861
Disposals	-	(278)	-	(278)
Exchange rate differences	10,996	695	-	11,691
Balance at 31 December 2011	58,152	13,267	6,157	77,576
Balance at 1 January 2012	58,152	13,267	6,157	77,576
Additions	-	3,245	506	3,751
Disposals	-	-	-	-
Exchange rate differences	(3,932)	(228)	-	(4,160)
Balance at 31 December 2012	54,220	16,284	6,663	77,167
Amortisation and impairment losses				
Balance at 1 January 2011	(9,250)	(7,248)	(1,632)	(18,130)
Amortisation charge for the year	-	(2,234)	(559)	(2,793)
Disposals	-	214	-	214
Exchange rate differences	(2,157)	(362)	-	(2,519)
Balance at 31 December 2011	(11,407)	(9,630)	(2,191)	(23,228)
Balance at 1 January 2012	(11,407)	(9,630)	(2,191)	(23,228)
Amortisation charge for the year	-	(1,809)	(603)	(2,412)
Disposals	-	-	-	-
Exchange rate differences	772	127	-	899
Balance at 31 December 2012	(10,635)	(11,312)	(2,794)	(24,741)
Carrying amounts				
Balance at 31 December 2010	37,906	4,050	3,216	45,172
Balance at 31 December 2011	46,745	3,637	3,966	54,348
Balance at 31 December 2012	43,585	4,972	3,869	52,426

The carrying amount of goodwill at 31 December 2012 was TL 43,585 (2011 – TL 46,745).

17. Other assets

	2012	2011
Collateral given for derivative and other transactions	22,260	23,103
Asset held for resale	17,183	4,382
Prepaid taxes	3,997	828
Prepaid expenses	3,420	3,048
Advances given	351	962
Others	1,230	1,623
	48,441	33,946

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	2012		2011	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Demand	-	69	-	25
Time	-	2,743	-	-
Total	-	2,812	-	25

Customer deposits

	2012		2011	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Retail customers				
Demand	-	6,936	-	7,588
Time	-	2,158	-	1,076
Total	-	9,094	-	8,664
Corporate customers				
Demand	-	26,130	-	70,083
Time	-	24,826	-	3,103
Total	-	50,956	-	73,186
Total	-	60,050	-	81,850

Other money market deposits

	2012		2011	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Obligations under repurchase agreements				
Central Bank of Turkey	89,604	-	77,739	-
Istanbul Stock Exchange Settlement and Custody	-	-	734	-
Other	331	-	299	-
Total	89,935	-	78,772	-

As at 31 December 2012, other money market deposits of TL 89,935 (31 December 2011 – TL 78,772) have fixed interest rates.

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	2012		2011	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Short-term⁽¹⁾				
Fixed interest	259	174,198	-	32,295
Floating interest	-	-	-	213,631
Long-term⁽¹⁾				
Fixed interest	-	567,815	-	857,228
Floating interest	-	115,297	-	134,068
Total	259	857,310	-	1,237,222

⁽¹⁾ Based on original maturities.

Repayments of long term borrowing are as follows:

	2012		2011	
	Floating rate	Fixed rate	Floating rate	Fixed rate
2012	-	-	61,746	305,392
2013	41,496	306,035	28,632	267,920
2014	21,671	261,780	13,483	283,916
2015	15,004	-	8,120	-
Thereafter	37,126	-	22,087	-
Total	115,297	567,815	134,068	857,228

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

As at 31 December 2012 and 2011, funds borrowed are unsecured.

As at 31 December 2012 and 2011, the Group has not had any defaults of principal, interest or redemption amounts or other breaches of loan covenants.

The Bank paid back USD 150 million loan with a 5 year maturity from Deutsche Bank Luxembourg S.A. which was obtained through a loan participation note issue lead managed by Deutsche Bank AG in June 2012.

20. Debt securities issued

	2012	2011
Debt securities issued at amortised cost	249,696	101,907
Total	249,696	101,907

Debt securities have a maturity range of August 2013 and May 2014 with fixed interest rates. All of the securities are issued in accordance with the regulation of Capital Markets Board of Turkey and are being traded at Bond and Bill Markets of Istanbul Stock Exchange.

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	2012	2011
Current accounts of loan customers	51,104	53,416
Taxes and funds payables	2,237	2,011
Collateral received for derivative transactions	1,938	4,550
Unearned commission income	1,265	2,915
Insurance payables	520	808
Transfer payables	180	1,062
Others	3,917	4,977
	61,161	69,739

22. Provisions

	2012	2011
Vacation pay liability	834	739
Employee termination benefits	180	121
Other	4,427	1,847
	5,441	2,707

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

	2012	2011
At 1 January	121	182
Change during the year	59	(61)
At 31 December	180	121

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 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 2012 and 2011, the Group reflected a liability calculated using the Projected Unit Credit Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds at the reporting date.

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22. Provisions (continued)

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

	2012	2011
Discount rate	2.89%	5.10%
Expected rates of salary/limit increases	5.00%	4.66%

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 statement of income in the period they occur.

Other provisions

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

23. Capital and reserves

	2012	2011
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 2012 and 2011, the composition of shareholders and their respective percentage of ownership are summarised as follows:

	2012		2011	
	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.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements****As at and for the year ended 31 December 2012***(Currency - In thousands of Turkish Lira)***23. Capital and reserves (continued)****Other reserves**

Movement in other reserves are as follows:

	Available- for-sale reserve	Foreign currency translation reserve	Total
At 1 January 2011	3,348	(11,135)	(7,787)
Net unrealised loss on available-for-sale financial investments	(2,637)	-	(2,637)
Foreign currency translation	-	(6,635)	(6,635)
At 31 December 2011	711	(17,770)	(17,059)
At 1 January 2012	711	(17,770)	(17,059)
Net unrealised gains on available-for-sale financial investments	4,685	-	4,685
Foreign currency translation	-	7,778	7,778
At 31 December 2012	5,396	(9,992)	(4,596)

Available-for-sale reserve

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

Foreign currency translation reserve

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

Dividends

The Group did not pay any dividends out of its 2011 profit as at 31 December 2012.

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The Group is controlled by Bank Hapoalim and C Faktoring A.Ş. which owns 69.83% and 30.17% of ordinary shares, respectively (2011 – 69.83% and 30.17%, respectively). The ultimate controlling shareholder of the Group is Bank Hapoalim. For the purpose of these consolidated financial information, 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 and finance lease receivables, customer accounts, funds borrowed and non-cash transactions. These are all commercial transactions and realised on an arms-length basis. The volumes of related party transactions, outstanding balances at period-end and relating expense and income for the period are as follows:

	Shareholders		Directors and key management personnel		Others	
	2012	2011	2012	2011	2012	2011
	Loans and finance lease receivables					
At 1 January	-	-	-	-	-	-
At end of the year	-	-	-	-	-	-
Interest income	-	-	-	-	-	-

As at 31 December 2012, no provisions have been recognised in respect of loans given to related parties (2011 – none).

	Shareholders		Directors and key management personnel		Others	
	2012	2011	2012	2011	2012	2011
	Funds borrowed					
At 1 January	152,620	-	-	-	99,980	69,966
At end of the year	-	152,620	-	-	86,381	99,980
Interest expense	1,892	2,891	-	-	4,555	4,142

Other balances with related parties:

Related party		Due from banks	Deposits	Other assets	Other liabilities	Non-cash loans
Shareholders	2012	-	-	9	14	18,592
	2011	-	-	-	9	114,685
Directors and key management personnel	2012	-	61	-	5	-
	2011	-	-	-	-	-
Others	2012	32	2,751	-	90	-
	2011	16	25	1	323	429

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Transactions with related parties:

Related party		Foreign exchange trading gain/(loss)	Other interest income	Other interest expense	Other operating income	Other operating expense
Shareholders	2012	1	-	-	229	700
	2011	-	-	-	364	-
Directors and key management personnel	2012	-	-	-	-	-
	2011	-	-	-	-	-
Others	2012	-	-	-	-	-
	2011	10	-	-	2	(19)

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 5,959 (2011 – TL 5,483) comprising salaries and other short-term benefits.

25. 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:

	2012	2011
Letters of guarantee	429,191	550,189
Letters of credit	73,070	95,468
Other guarantees	16,899	858
Commitments	3,078	3,057
Total non-cash loans	522,238	649,572

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 2012, the Group has non-cancellable operating lease agreements amounting to TL 561 (2011 – TL 606).

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25. Commitments and contingencies (continued)

Litigation

There were a number of legal proceedings outstanding against the Group as at 31 December 2012 totalling TL 198 (2011 – TL 198) of which TL 61 (2011 – TL 84) 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 this consolidated financial information.

The Group also has 1 open-ended investment fund (2011 – 1 open-ended investment funds) which were established under the regulations of the Capital Markets Board of Turkey and managed by third party investment company. As at 31 December 2012, total size of investment fund is amounting to TL 821 (2011 – TL 292). As at 31 December 2012, the Group had investment custody accounts amounting to TL 159 (2011 – TL 145).

26. 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.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Consolidated Financial Statements As at and for the year ended 31 December 2012

(Currency - In thousands of Turkish Lira)

26. Financial risk management (continued)

Strategy in using financial instruments (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 Board of Directors and 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 keep 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 risks to the best possible extent, 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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Notes to the Consolidated Financial Statements As at and for the year ended 31 December 2012

(Currency - In thousands of Turkish Lira)

26. Financial risk management (continued)

Credit risk (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 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 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 Turkey and Israel legislations and the most conservative limitation is taken as benchmark while determining the internal limit.

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

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

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

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

As at 31 December 2012, the share of the Group’s receivables from its top 20 credit customers in its total loan portfolio is 33% (2011 – 36%).

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

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26. 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.

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 analysed 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:

2012	Cash loans	Non-cash loans	Total
Tourism and entertainment	213,963	5,679	219,642
Public works and civil engineering	178,202	24,912	203,114
Electric production and supply	134,816	55,654	190,470
Other commercial services	124,520	15,490	140,010
Trade	47,440	83,009	130,449
Personal other services	92,419	23,384	115,803
Metal and by-products	81,309	29,876	111,185
Building contractor (general and special trade)	64,381	33,385	97,766
Other financial institutions	41,253	43,626	84,879
Transportation	24,320	53,937	78,257
Agriculture and forestry	32,555	15,078	47,633
Machinery and equipment	1,328	27,528	28,856
Manufacture of transport equipment	-	27,691	27,691
Commercial, mortgage, investment finance banks	-	25,162 ⁽¹⁾	25,162
Electrical and electronic equipment	-	22,481	22,481
Mining and quarrying	9,109	12,000	21,109
Food, beverage and tobacco industries	14,937	4,183	19,120
Textile and clothing	17,232	562	17,794
Holding companies	13,177	74	13,251
Consumer loans	157,186	2,872	160,058
Others	24,293	15,655	39,948
Total performing loans	1,272,440	522,238	1,794,678
Interest accruals	15,448	-	15,448
Loans in arrears	53,337	-	53,337
Provision for possible loan losses	(32,023)	-	(32,023)
Total loans	1,309,202	522,238	1,831,440

⁽¹⁾ TL 1,963 and TL 18,540 of this non-cash exposure has been counter-guaranteed by the Export Import Bank of Korea and Bank Hapoalim, respectively.

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As at and for the year ended 31 December 2012***(Currency - In thousands of Turkish Lira)***26. Financial risk management (continued)***Monitoring the risk (continued)*

2011	Cash loans	Non-cash loans	Total
Tourism and entertainment	269,469	5,411	274,880
Public works and civil engineering	174,212	21,901	196,113
Electric production and supply	134,147	42,300	176,447
Building contractor (general and special trade)	107,528	49,920	157,448
Commercial, mortgage, investment finance banks	-	145,792 ⁽¹⁾	145,792
Trade	52,795	83,089	135,884
Metal and by-products	72,059	58,895	130,954
Personal other services	93,954	7,792	101,746
Other commercial services	72,335	11,973	84,308
Transportation	15,951	59,898	75,849
Other financial institutions	14,297	52,013	66,310
Holding companies	59,077	74	59,151
Health service	47,678	-	47,678
Manufacture of transport equipment	2,152	35,699	37,851
Machinery and equipment	756	30,603	31,359
Agriculture and forestry	22,640	3,903	26,543
Mining and quarrying	22,961	-	22,961
Food, beverage and tobacco industries	13,927	4,471	18,398
Electrical and electronic equipment	1,912	15,831	17,743
Textile and clothing	15,353	122	15,475
Consumer loans	220,443	2,488	222,931
Others	34,515	17,397	51,912
Total performing loans	1,448,161	649,572	2,097,733
Interest accruals	23,021	-	23,021
Loans in arrears	82,943	-	82,943
Provision for possible loan losses	(60,414)	-	(60,414)
Total loans	1,493,711	649,572	2,143,283

⁽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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26. Financial risk management (continued)*Monitoring the risk (continued)*

As at 31 December 2012, total collateralisation coverage of cash and non-cash loans are 83% (2011 – 88%).

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

	2012	2011
Cash loans (including financial lease receivables) under loan in arrears		
Secured by mortgages	36,953	42,740
Secured by pledge	7,056	7,624
Secured by guarantee	356	7,939
Secured by assignment and cheques	459	-
Unsecured	8,513	24,640
Total	53,337	82,943
Cash loans (including financial lease receivables) except loan in arrears		
Secured by cash	2,900	28,341
Secured by mortgages	564,867	755,529
Secured by pledge	75,236	155,225
Secured by guarantee	413,799	384,946
Secured by assignment and cheques	92,454	93,176
Unsecured	138,632	53,965
Total	1,287,888	1,471,182
Non-cash loans		
Secured by cash	7,411	8,303
Secured by mortgages	76,988	83,481
Secured by pledge	1,667	4,320
Secured by guarantee	259,585	366,827
Secured by assignment and cheques	4,800	4,800
Unsecured	171,787	181,841
Total	522,238	649,572

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

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26. 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 one month to total liabilities maturing within one month cannot 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 two pages analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at reporting date to contractual maturity date.

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26. Financial risk management (continued)

Liquidity risk (continued)

2012	On demand	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	33,900	-	-	-	-	-	-	-	-	-	-	33,900
Due from banks and financial institutions	17,236	-	1	251	2	-	-	-	-	-	-	17,490
Interbank and other money market placements	-	9,007	-	-	-	-	-	-	-	-	-	9,007
Reserve deposits at central banks	-	102,078	-	-	-	-	-	-	-	-	-	102,078
Trading assets	-	412	2,437	951	11,205	3,031	1,683	569	553	-	-	20,841
Investment securities	-	65	2,684	55,363	3	72,877	3,106	3,273	1,972	1,546	26	140,915
Loaned securities	-	104	968	12,931	14,824	58,242	-	-	2,636	326	-	90,031
Loans and finance lease receivables	-	45,550	101,326	191,752	318,681	329,845	149,068	70,957	40,617	25,427	35,979	1,309,202
Property and equipment	-	-	-	-	-	-	-	-	-	-	9,181	9,181
Intangible assets	-	-	-	-	-	-	-	-	-	-	52,426	52,426
Current tax assets	-	-	-	-	-	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-	-	-	-	7,010	7,010
Other assets	-	28,008	-	-	-	-	-	-	-	-	20,433	48,441
Total assets	51,136	185,224	107,416	261,248	344,715	463,995	153,857	74,799	45,778	27,299	125,055	1,840,522
Liabilities												
Deposit from other banks ⁽¹⁾	69	-	-	2,743	-	-	-	-	-	-	-	2,812
Customer deposits ⁽¹⁾	33,066	22,066	210	334	3,908	462	3	-	1	-	-	60,050
Other money market deposits	-	89,935	-	-	-	-	-	-	-	-	-	89,935
Trading liabilities	-	1,207	1,746	899	26,072	3,152	-	-	-	-	-	33,076
Funds borrowed	-	12,556	305,359	53,291	150,782	283,451	15,004	15,004	15,004	7,118	-	857,569
Debt securities issued	-	-	1,817	2,309	195,570	50,000	-	-	-	-	-	249,696
Other liabilities	34,684	14,954	7,043	-	-	3,215	-	-	-	-	1,265	61,161
Provisions	-	302	4,057	-	61	-	-	-	-	-	1,021	5,441
Current tax liabilities	-	-	1,430	-	-	-	-	-	-	-	-	1,430
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	67,819	141,020	321,662	59,576	376,393	340,280	15,007	15,004	15,005	7,118	2,286	1,361,170
Net liquidity gap	(16,683)	44,204	(214,246)	201,672	(31,678)	123,715	138,850	59,795	30,773	20,181	122,769	

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

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26. Financial risk management (continued)

Liquidity risk (continued)

2011	On demand	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	53,872	23,139	-	-	-	-	-	-	-	-	-	77,011
Due from banks and financial institutions	34,458	11,785	2	268	32	-	-	-	-	-	-	46,545
Interbank and other money market placements	-	-	-	-	-	-	-	-	-	-	-	-
Reserve deposits at central banks	-	102,012	-	-	-	-	-	-	-	-	-	102,012
Trading assets	-	2,174	3,275	5,307	14,713	8,140	3,360	1,419	901	676	-	39,965
Investment securities	-	41,928	22,549	9,115	9,323	9,685	7,945	6,948	1,959	6,680	28	116,160
Loaned securities	-	12,885	5,192	305	-	13,956	43,331	-	2,023	1,067	-	78,759
Loans and finance lease receivables	-	65,491	91,980	164,648	267,438	389,147	248,792	115,553	56,192	54,559	39,911	1,493,711
Property and equipment	-	-	-	-	-	-	-	-	-	-	9,202	9,202
Intangible assets	-	-	-	-	-	-	-	-	-	-	54,348	54,348
Current tax assets	-	-	5,969	-	-	-	-	-	-	-	-	5,969
Deferred tax assets	-	-	-	-	-	-	-	-	-	-	2,426	2,426
Other assets	-	26,153	-	-	-	-	-	-	-	-	7,793	33,946
Total assets	88,330	285,567	128,967	179,643	291,506	420,928	303,428	123,920	61,075	62,982	113,708	2,060,054
Liabilities												
Deposit from other banks ⁽¹⁾	25	-	-	-	-	-	-	-	-	-	-	25
Customer deposits ⁽¹⁾	77,671	769	602	593	964	1,239	12	-	-	-	-	81,850
Other money market deposits	1,031	77,741	-	-	-	-	-	-	-	-	-	78,772
Trading liabilities	-	1,752	97	402	675	35,977	3,096	-	-	-	-	41,999
Funds borrowed	-	6,090	206,415	281,319	119,240	296,552	297,399	8,120	8,120	13,967	-	1,237,222
Debt securities issued	-	-	-	1,907	-	100,000	-	-	-	-	-	101,907
Other liabilities	14,643	16,008	22	13,353	-	-	22,195	-	-	-	3,518	69,739
Provisions	-	1,755	-	-	84	-	-	-	-	-	868	2,707
Current tax liabilities	-	-	88	-	-	-	-	-	-	-	-	88
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	2,969	2,969
Total liabilities	93,370	104,115	207,224	297,574	120,963	433,768	322,702	8,120	8,120	13,967	7,355	1,617,278
Net liquidity gap	(5,040)	181,452	(78,257)	(117,931)	170,543	(12,840)	(19,274)	115,800	52,955	49,015	106,353	

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

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26. Financial risk management (continued)

Liquidity risk (continued)

The table below analyses residual contractual maturities of liabilities:

2012	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	2,812	2,851	69	-	-	2,782	-	-
Customer deposits	60,050	60,161	33,064	22,074	210	4,347	466	-
Interbank and other money market deposits	89,935	90,030	-	90,030	-	-	-	-
Funds borrowed	857,569	906,854	-	12,678	310,204	224,419	352,334	7,219
Debt securities issued	249,696	271,406	-	-	2,634	216,753	52,019	-
Current account of loan customers ⁽¹⁾	51,104	51,461	34,684	6,173	7,069	-	3,535	-
	1,311,166	1,382,763	67,817	130,955	320,117	448,301	408,354	7,219

⁽¹⁾ Included in other liabilities.

2011	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	25	25	25	-	-	-	-	-
Customer deposits	81,850	81,911	77,671	769	603	1,568	1,300	-
Interbank and other money market deposits	78,772	78,795	1,031	77,764	-	-	-	-
Funds borrowed	1,237,222	1,339,764	-	6,543	210,225	444,293	664,340	14,363
Debt securities issued	101,907	120,160	-	-	-	10,080	110,080	-
Current account of loan customers ⁽¹⁾	53,416	56,727	14,643	3,261	-	13,554	25,269	-
	1,553,192	1,677,382	93,370	88,337	210,828	469,495	800,989	14,363

⁽¹⁾ Included in other liabilities.

The table below analyses contractual maturities of derivative transactions:

2012	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 contracts	37,415	-	-	-	-	-	37,415
Forward sale contracts	37,353	-	-	-	-	-	37,353
Currency swap purchases	165,993	45,972	12,235	229,893	121,843	-	575,936
Currency swap sales	166,906	45,847	12,285	243,919	119,097	-	588,054
Interest rate cap/floor purchase contracts	-	-	-	-	177,760	-	177,760
	407,667	91,819	24,520	473,812	418,700	-	1,416,518
2011							
Assets							
Forward purchase contracts	55,212	-	-	-	-	-	55,212
Forward sale contracts	55,206	-	-	-	-	-	55,206
Currency swap purchases	75,587	79,241	36,368	59,624	222,267	4,788	477,875
Currency swap sales	75,139	76,393	29,885	45,100	245,721	4,058	476,296
Option purchase contracts	-	-	-	76,260	-	-	76,260
Option sale contracts	-	-	-	59,889	-	-	59,889
Interest rate cap/floor purchase contracts	-	-	-	-	190,650	-	190,650
	261,144	155,634	66,253	240,873	658,638	8,846	1,391,388

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

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26. 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 financial position 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 2012, the highest potential loss of the securities portfolio was generated by historical simulation method as TL 97 (2011 – TL 570) 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 authorisation 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 (7,337) of net loss of JSC BankPozitiv (2011 - TL (9,638) net loss), net foreign exchange position of the group would have been TL (15,660) (2011 - TL 1,948).

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ**Notes to the Consolidated Financial Statements
As at and for the year ended 31 December 2012***(Currency - In thousands of Turkish Lira)***26. Financial risk management (continued)****Currency risk (continued)**

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

2012	USD	Euro	CHF	JPY	KZT	Others	Total
Assets							
Cash and balances with central banks	4,463	239	-	-	29,093	69	33,864
Due from banks and financial institutions	14,834	903	619	294	5	249	16,904
Reserve deposits at central Banks	91,589	-	-	-	1,758	-	93,347
Trading assets	6	-	-	-	-	-	6
Investment securities	2,873	-	-	-	26	-	2,899
Loans and finance lease receivables ⁽¹⁾	472,926	281,235	12,603	4,017	131,599	118	902,498
Property and equipment	-	-	-	-	5,888	-	5,888
Intangible assets	43,585	-	-	-	1,205	-	44,790
Deferred tax assets	-	-	-	-	1,516	-	1,516
Other assets	2,444	20,338	14	-	5,299	19	28,114
Total assets	632,720	302,715	13,236	4,311	176,389	455	1,129,826
Liabilities							
Deposit from other banks ⁽²⁾	2,744	2	-	-	63	3	2,812
Customer deposits ⁽²⁾	16,092	512	-	-	43,392	54	60,050
Trading liabilities	1,744	-	-	-	-	-	1,744
Funds borrowed	713,338	143,972	-	-	-	-	857,310
Other liabilities	23,617	8,396	147	14	594	2	32,770
Provisions	-	-	-	-	113	-	113
Total liabilities	757,535	152,882	147	14	44,162	59	954,799
Gross exposure	(124,815)	149,833	13,089	4,297	132,227	396	175,027
Off-balance sheet position							
Net notional amount of derivatives	(30,597)	(149,858)	(13,043)	(4,239)	-	(287)	(198,024)
Net exposure	(155,412)	(25)	46	58	132,227	109	(22,997)

⁽¹⁾ Foreign currency net non-performing loans and finance lease receivables amounting TL 6,081 and TL 48 are included at foreign currency position, respectively.⁽²⁾ Figures represent the foreign subsidiary's deposit balances.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

Notes to the Consolidated Financial Statements

As at and for the year ended 31 December 2012

(Currency - In thousands of Turkish Lira)

26. Financial risk management (continued)

Currency risk (continued)

2011	USD	Euro	CHF	JPY	KZT	Others	Total
Assets							
Cash and balances with central banks	1,307	117	-	-	75,555	25	77,004
Due from banks and financial institutions	18,364	1,024	164	528	14	297	20,391
Reserve deposits at central Banks	93,725	-	-	-	2,536	-	96,261
Trading assets	1,010	-	-	-	-	-	1,010
Investment securities	9,352	-	-	-	13,349	-	22,701
Loans and finance lease receivables ⁽¹⁾	693,287	292,622	20,186	7,979	104,937	135	1,119,146
Property and equipment	-	-	-	-	5,960	-	5,960
Intangible assets	46,745	-	-	-	1,217	-	47,962
Deferred tax assets	-	-	-	-	2,426	-	2,426
Other assets	3,490	20,690	18	-	7,135	138	31,471
Total assets	867,280	314,453	20,368	8,507	213,129	595	1,424,332
Liabilities							
Deposit from other banks ⁽²⁾	2	1	-	-	22	-	25
Customer deposits ⁽²⁾	10,786	724	-	-	70,274	66	81,850
Funds borrowed	1,095,385	141,837	-	-	-	-	1,237,222
Other liabilities ⁽³⁾	12,919	21,221	192	-	670	2	35,004
Provisions	-	-	-	-	134	-	134
Total liabilities	1,119,092	163,783	192	-	71,100	68	1,354,235
Gross exposure	(251,812)	150,670	20,176	8,507	142,029	527	70,097
Off-balance sheet position							
Net notional amount of derivatives	101,783	(150,552)	(20,140)	(8,438)	-	(440)	(77,787)
Net exposure⁽⁴⁾	(150,029)	118	36	69	142,029	87	(7,690)

⁽¹⁾ Foreign currency net non-performing loans and finance lease receivables amounting TL 5,349 and TL 52 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 17,770 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.

Sensitivity analysis

A 10% weakening of TL against the foreign currencies at 31 December 2012 and 2011 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.

	2012		2011	
	Equity	Profit or loss	Equity	Profit or loss
USD	(14,807)	(14,807)	(14,039)	(14,039)
EUR	(3)	(3)	12	12
Other currencies	13,244	13,244	14,222	14,222
	(1,566)	(1,566)	195	195

A 10% strengthening of the TL against the foreign currencies at 31 December 2012 and 2011 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.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

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26. Financial risk management (continued)

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.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

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26. Financial risk management (continued)

Cash flow and fair value interest rate risk (continued)

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

2012	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	-	-	-	-	-	-	-	-	-	33,900	33,900
Due from banks and financial institutions	240	1	251	2	-	-	-	-	-	16,996	17,490
Interbank and other money market placements	9,007	-	-	-	-	-	-	-	-	-	9,007
Reserve deposits at central banks	-	-	-	-	-	-	-	-	-	102,078	102,078
Trading assets	412	2,710	1,501	11,205	2,739	1,152	569	553	-	-	20,841
Investment securities	3,507	110,171	24,553	-	-	2,658	-	-	-	26	140,915
Loaned securities	6,141	49,104	34,786	-	-	-	-	-	-	-	90,031
Loans and finance lease receivables	382,810	65,387	94,879	192,445	277,660	142,551	64,441	34,156	18,894	35,979	1,309,202
Property and equipment	-	-	-	-	-	-	-	-	-	9,181	9,181
Intangible assets	-	-	-	-	-	-	-	-	-	52,426	52,426
Current tax assets	-	-	-	-	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	-	-	-	-	7,010	7,010
Other assets	-	-	-	-	-	-	-	-	-	48,441	48,441
Total assets	402,117	227,373	155,970	203,652	280,399	146,361	65,010	34,709	18,894	306,037	1,840,522
Liabilities											
Deposit from other banks ⁽¹⁾	-	-	2,743	-	-	-	-	-	-	69	2,812
Customer deposits ⁽¹⁾	22,066	210	334	3,908	462	3	-	1	-	33,066	60,050
Other money market deposits	89,935	-	-	-	-	-	-	-	-	-	89,935
Trading liabilities	1,207	1,746	899	26,072	3,152	-	-	-	-	-	33,076
Funds borrowed	14,630	391,027	53,371	136,761	261,780	-	-	-	-	-	857,569
Debt securities issued	-	1,817	2,309	195,570	50,000	-	-	-	-	-	249,696
Other liabilities	6,162	7,043	-	-	3,215	-	-	-	-	44,741	61,161
Provisions	-	-	-	-	-	-	-	-	-	5,441	5,441
Current tax liabilities	-	-	-	-	-	-	-	-	-	1,430	1,430
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	-	-
Total liabilities	134,000	401,843	59,656	362,311	318,609	3	-	1	-	84,747	1,361,170
Financial position interest sensitivity gap	268,117	(174,470)	96,314	(158,659)	(38,210)	146,358	65,010	34,708	18,894	221,290	
Off-balance sheet interest sensitivity gap, net	(849)	17,899	(50)	(31,801)	369	1,181	601	594	-	-	
Total interest sensitivity gap	267,268	(156,571)	96,264	(190,460)	(37,841)	147,539	65,611	35,302	18,894	221,290	

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

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

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26. Financial risk management (continued)

Cash flow and fair value interest rate risk (continued)

2011	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	23,139	-	-	-	-	-	-	-	-	53,872	77,011
Due from banks and financial institutions	34,709	-	-	-	-	-	-	-	-	11,836	46,545
Interbank and other money market placements	-	-	-	-	-	-	-	-	-	-	-
Reserve deposits at central banks	-	-	-	-	-	-	-	-	-	102,012	102,012
Trading assets	2,174	3,725	5,513	14,713	7,690	3,360	1,419	695	676	-	39,965
Investment securities	43,514	47,288	16,007	9,323	-	-	-	-	-	28	116,160
Loaned securities	21,020	28,732	29,007	-	-	-	-	-	-	-	78,759
Loans and finance lease receivables	357,959	76,122	152,717	213,295	256,004	209,801	101,119	47,982	38,801	39,911	1,493,711
Property and equipment	-	-	-	-	-	-	-	-	-	9,202	9,202
Intangible assets	-	-	-	-	-	-	-	-	-	54,348	54,348
Current tax assets	-	-	-	-	-	-	-	-	-	5,969	5,969
Deferred tax assets	-	-	-	-	-	-	-	-	-	2,426	2,426
Other assets	-	-	-	-	-	-	-	-	-	33,946	33,946
Total assets	482,515	155,867	203,244	237,331	263,694	213,161	102,538	48,677	39,477	313,550	2,060,054
Liabilities											
Deposit from other banks ⁽¹⁾	-	-	-	-	-	-	-	-	-	25	25
Customer deposits ⁽¹⁾	769	602	593	964	1,239	12	-	-	-	77,671	81,850
Other money market deposits	1,031	77,741	-	-	-	-	-	-	-	-	78,772
Trading liabilities	1,752	97	402	675	35,977	3,096	-	-	-	-	41,999
Funds borrowed	179,860	142,138	286,657	76,731	267,920	283,916	-	-	-	-	1,237,222
Debt securities issued	-	-	1,907	-	100,000	-	-	-	-	-	101,907
Other liabilities	3,225	-	13,353	-	-	22,195	-	-	-	30,966	69,739
Provisions	-	-	-	-	-	-	-	-	-	2,707	2,707
Current tax liabilities	-	-	-	-	-	-	-	-	-	88	88
Deferred tax liabilities	-	-	-	-	-	-	-	-	-	2,969	2,969
Total liabilities	186,637	220,578	302,912	78,370	405,136	309,219	-	-	-	114,426	1,617,278
Balance sheet interest sensitivity gap	295,878	(64,711)	(99,668)	158,961	(141,442)	(96,058)	102,538	48,677	39,477	199,124	
Off-balance sheet interest sensitivity gap, net	19,513	40,980	(12,582)	(4,538)	(45,681)	961	1,463	740	729	-	
Total interest sensitivity gap	315,391	(23,731)	(112,250)	154,423	(187,123)	(95,097)	104,001	49,417	40,206	199,124	

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

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As at 31 December 2012 and 2011, the effective interest rate applied on balance sheet items summarised as follows:

2012 (%)	TL	USD	EUR	CHF	JPY	GBP	KZT
Due from banks and financial institutions	9.29	0.33	0.12	-	-	-	0.50
Interbank and other money market placements	10.37	-	-	-	-	-	-
Marketable securities (Investment and trading)	8.54	9.63	-	-	-	-	-
Loans and finance lease receivables							
- Corporate loans	15.11	7.41	7.46	-	-	-	8.03
- Retail loans	17.80	10.95	8.63	7.45	6.12	11.35	15.60
Deposits from other banks	-	4.00	4.00	-	-	-	-
Customer deposits	-	4.12	-	-	-	-	5.94
Other money market deposits	5.93	-	-	-	-	-	-
Funds borrowed and debt securities issued	10.16	5.87	4.13	-	-	-	-
Current account of loan customers ⁽¹⁾	5.36	4.96	3.96	-	-	-	-
2011 (%)	TL	USD	EUR	CHF	JPY	GBP	KZT
Due from banks and financial institutions	8.13	0.91	0.17	-	-	-	0.03
Interbank and other money market placements	8.15	-	-	-	-	-	-
Marketable securities (Investment and trading)	9.12	9.25	-	-	-	-	4.55
Loans and finance lease receivables							
- Corporate loans	13.46	7.32	7.59	-	-	-	8.70
- Retail loans	16.79	11.26	8.65	7.64	6.06	11.53	17.44
Deposits from other banks	-	-	-	-	-	-	-
Customer deposits	-	2.42	-	-	-	-	6.09
Other money market deposits	5.38	-	-	-	-	-	-
Funds borrowed and debt securities issued	10.39	6.16	3.94	-	-	-	-
Current account of loan customers ⁽¹⁾	5.84	5.04	3.44	-	-	-	-

⁽¹⁾ Included in other liabilities.

The Bank's value at market risks as of 31 December 2012 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:

	2012		
	Average	Highest	Lowest
Interest rate risk	4,583	5,583	3,770
Counter party risk	1,245	1,570	1,019
Currency risk	3,361	3,516	2,890
Total value-at-risk	9,189	10,669	7,679

Internal capital adequacy assessment process

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.

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26. Financial risk management (continued)

Cash flow and fair value interest rate risk (continued)

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 effects 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 (%)	2012
Local TL interest rate	
+500 bps	(2.34)
-400 bps	3.12
Foreign currency interest rate	
+200 bps EUR	(1.00)
-200 bps EUR	0.29
+200 bps USD	(0.85)
-200 bps USD	0.28

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 financial position 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 2012 are as follows:

	2012
Amount subject to credit risk (I)	1,569,937
Amount subject to market risk (II)	270,192
Amount subject to operational risk (III)	176,746
Total risk-weighted assets and value at market risk and operational risk (IV) = (I+II+III)	2,016,875
Shareholders' equity	433,099
Capital adequacy ratio	21.47%

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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 consolidated financial statements.

	Carrying amount		Fair value	
	2012	2011	2012	2011
Financial assets				
Cash and balances with central banks	33,900	77,011	33,900	77,011
Due from banks and financial institutions	17,490	46,545	17,490	46,545
Interbank and other money market placements	9,007	-	9,007	-
Reserve deposits at central banks	102,078	102,012	102,078	102,012
Trading assets	20,841	39,965	20,841	39,965
Investment securities	140,915	116,160	140,915	116,160
Loaned securities	90,031	78,759	90,031	78,759
Loans and finance lease receivables	1,309,202	1,493,711	1,437,503	1,637,741
	1,723,464	1,954,163	1,851,765	2,098,193
Financial liabilities				
Deposits from other banks	2,812	25	2,812	25
Customer deposits	60,050	81,850	60,043	80,594
Other money market deposits	89,935	78,772	89,930	78,729
Trading liabilities	33,076	41,999	33,076	41,999
Funds borrowed	857,569	1,237,222	903,109	1,333,201
Debt securities issued	249,696	101,907	256,908	100,659
Current accounts of loan customers ⁽¹⁾	51,104	53,416	51,189	56,418
	1,344,242	1,595,191	1,397,067	1,691,625

⁽¹⁾ Included in other liabilities.

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27. Fair value of financial instruments (continued)

Valuation of financial instruments

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.

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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:

2012	Level 1	Level 2	Level 3	Total
Trading assets	823	20,018	-	20,841
Investment and loaned securities (*)	230,920	-	-	230,920
	231,743	20,018	-	251,761
Trading liabilities	-	33,076	-	33,076
	-	33,076	-	33,076
2011	Level 1	Level 2	Level 3	Total
Trading assets	659	39,306	-	39,965
Investment and loaned securities (*)	194,891	-	-	194,891
	195,550	39,306	-	234,856
Trading liabilities	-	41,999	-	41,999
	-	41,999	-	41,999

(*) As at 31 December 2012, securities that are not publicly traded amounting to TL 26 have been measured at cost and are excluded from the table (2011 – TL 28).

Loans and finance lease receivables

Loans and finance lease receivables are net of provisions for impairment. The estimated fair value of loans and finance lease 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.

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 amortised 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.

BANKPOZİTİF KREDİ VE KALKINMA BANKASI ANONİM ŞİRKETİ

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28. 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.

2012	Asset management and treasury	Corporate banking	Retail banking	Foreign financial subsidiary	Non-financial services	Eliminations/ Adjustments	Total
Interest income	39,244	94,103	28,390	11,591	4	(10)	173,322
Interest expense	(96,730)	(1,213)	-	(594)	-	10	(98,527)
Intersegment revenue	46,226	(39,769)	(6,457)	-	-	-	-
Net interest income	(11,260)	53,121	21,933	10,997	4	-	74,795
Net fee and commission income	(616)	7,339	1,172	2,493	-	-	10,388
Net trading income and foreign exchange gain, net	5,378	554	-	1,773	2	41	7,748
Other operating income	748	346	407	677	4,436	(1,873)	4,741
Total operating income	(5,750)	61,360	23,512	15,940	4,442	(1,832)	97,672
Net impairment loss on financial and non-financial assets	-	(6,930)	(2,361)	922	-	-	(8,369)
Total operating expense	(12,683)	(18,459)	(11,334)	(13,866)	(4,373)	1,873	(58,842)
Profit before income tax	(18,433)	35,971	9,817	2,996	69	41	30,461
Income tax	3,777	(7,374)	(2,012)	(730)	(1)	(8)	(6,348)
Net profit for the year	(14,656)	28,597	7,805	2,266	68	33	24,113
Total assets	617,686	1,033,791	157,133	196,429	5,168	(169,685)	1,840,522
Total liabilities	1,237,615	72,266	2,965	63,776	1,081	(16,533)	1,361,170

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2011	Asset management and treasury	Corporate banking	Retail banking	Foreign financial subsidiary	Non-financial services	Eliminations/ Adjustments	Total
Interest income	25,420	89,521	36,262	7,289	9	(44)	158,457
Interest expense	(93,121)	(1,530)	-	(720)	-	44	(95,327)
Intersegment revenue	53,006	(38,668)	(14,338)	-	-	-	-
Net interest income	(14,695)	49,323	21,924	6,569	9	-	63,130
Net fee and commission income	(563)	10,673	3,946	3,093	-	-	17,149
Net trading income and foreign exchange gain, net	(10,546)	7,253	5	3,905	10	(96)	531
Other operating income	588	232	837	372	4,988	(4,178)	2,839
Total operating income	(25,216)	67,481	26,712	13,939	5,007	(4,274)	83,649
Net impairment loss on financial and non-financial assets	(1,116)	(3,379)	(806)	2,488	-	-	(2,813)
Total operating expense	(15,995)	(9,987)	(26,431)	(15,571)	(4,735)	4,178	(68,541)
Profit before income tax	(42,327)	54,115	(525)	856	272	(96)	12,295
Income tax	7,782	(10,201)	197	(228)	(68)	19	(2,499)
Net profit for the year	(34,545)	43,914	(328)	628	204	(77)	9,796
Total assets	706,496	1,078,088	228,960	226,592	4,621	(184,703)	2,060,054
Total liabilities	1,476,544	69,986	7,038	84,589	598	(21,477)	1,617,278

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29. Rating

As at 31 December 2012, the Bank's ratings assigned by international rating agencies, Fitch Ratings and Moody's Ratings are as follows:

Fitch Ratings, November 2012

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

Moody's Ratings, July 2012

Local Currency Issuer Rating	Ba1 (Stable)
Foreign Currency Issuer Rating	Ba1 (Stable)
Financial Strength Rating	D

30. Subsequent and other events

On 7 February 2013, the Bank issued USD 150 million 5-year fixed-rate notes with a maturity date of 7 February 2018 and coupon rate of 5% in the international markets.

In February 2013, the Bank paid back its USD 150 million loan which was obtained from Commerzbank International S.A. through a loan participation note issue in February 2008.