Anadolubank Anonim Şirketi
And Its Subsidiaries

Financial Statements
As At and For The Year Ended
31 December 2013
With Independent Auditors' Report Thereon

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi

12 March 2014

This report contains the "Independent Auditors' Report on Financial Statements" comprising 1 page and; the "Financial statements and their explanatory notes" comprising 70 pages.

KPMG

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Independent Auditors' Report

To the Board of Directors of Anadolubank Anonim Şirketi,

Introduction

We have audited the accompanying consolidated financial statements of Anadolubank Anonim Şirketi (the "Bank"), which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statements of profit or loss and other 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgments, 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 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 on 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 financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at 31 December 2013, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards

Other matter

The consolidated financial statements of the Group as at and for the year ended 31 December 2012 was audited by another auditor who expressed an unmodified opinion on those statements on 18 April 2013, respectively.

KPMG Akis Bağımsız Denetim ve SMMM A.Ş.

12 March 2014
Istanbul, Turkey

Notes to the consolidated financial statements

Notes to the consolidated financial statements

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013
(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated)

	Notes	**31 December 2013**	**31 December 2012**
ASSETS			
Cash and balances with the Central Bank	*5*	859,118	661,375
Deposits with banks and other financial institutions	*5*	340,836	272,087
Receivables from reverse repurchase transactions	*5*	150,032	80,014
Trading assets	*6*	139,755	153,480
Derivative financial assets held for trading purpose	*7*	75,670	18,229
Investment securities	*8*	973,603	875,878
Available for sale investments		*755,941*	*700,680*
Investments held to maturity		*217,662*	*175,198*
Loans and receivables	*9, 10*	6,197,691	5,058,518
Property and equipment	*11*	26,929	24,094
Intangible assets	*12*	2,635	2,906
Deferred tax assets	*17*	13,865	3,865
Other assets	*13*	238,190	211,867
Total assets		**9,018,324**	**7,362,313**
LIABILITIES			
Deposits from banks	*14*	323,528	209,109
Deposits from customers	*14*	5,604,217	4,493,886
Obligations under repurchase agreements	*14*	811,840	592,810
Funds borrowed	*15*	668,432	368,846
Derivative financial liabilities held for trading purpose	*7*	33,620	6,625
Deferred tax liabilities	*17*	-	37,747
Other liabilities and provisions	*16*	350,214	374,898
Income taxes payable	*17*	317	7,743
Total liabilities		**7,792,168**	**6,091,664**
EQUITY	*18*		
Share capital		602,619	602,619
Legal reserves		42,936	34,123
Other reserves		60	60
Translation reserve		66,526	21,343
Fair value reserve		(49,404)	150,397
Retained earnings		561,279	459,959
Total equity attributable to equity holders of the Bank		**1,224,016**	**1,268,501**
Non-controlling interests	*18*	**2,140**	**2,148**
Total equity		**1,226,156**	**1,270,649**
Total liabilities and equity		**9,018,324**	**7,362,313**

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

ANADOLUBANK ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

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

	Notes	2013	2012
Continuing operations:			
Interest income:			
Interest on loans and receivables	*20*	604,797	698,209
Interest on marketable securities	*20*	67,022	112,067
Interest on deposits with banks and other financial institutions	*20*	472	1,521
Interest on other money market placements	*20*	10,662	7,278
Other interest income	*20*	5,007	4,078
Total interest income		**687,960**	**823,153**
Interest expenses:			
Interest on deposits	*20*	(268,286)	(304,968)
Interest on other money market deposits	*20*	(13,885)	(58,433)
Interest on funds borrowed	*20*	(14,728)	(14,084)
Other interest expenses	*20*	(406)	(102)
Total interest expenses		**(297,305)**	**(377,587)**
Net interest income		**390,655**	**445,566**
Fee and commission income	*21*	72,192	70,391
Fee and commission expenses	*21*	(14,111)	(14,111)
Net fee and commission income		**58,081**	**56,280**
Other operating income:			
Trading income from marketable securities	*22*	68,771	29,203
Trading gains from derivatives	*22*	80,752	51,393
Other income	*22*	11,099	10,185
Total other operating income		**160,622**	**90,781**
Other operating expenses:			
Salaries and employee benefits	*22,23*	(184,849)	(159,626)
Foreign exchange losses, net	*22*	(138,389)	(57,403)
Provision for possible loan losses, net of recoveries	*9, 22*	(56,327)	(86,204)
Depreciation and amortisation	*22*	(8,364)	(6,916)
Taxes other than on income	*22*	(14,596)	(11,528)
Other expenses	*22, 24*	(68,903)	(53,700)
Total other operating expenses		**(471,428)**	**(375,377)**
Income from operations		**137,930**	**217,250**
Taxation	*17*	(27,819)	(41,477)
Profit from continuing operations		**110,111**	**175,773**
Profit for the year attributable to:			
Equity holders of the Bank		110,133	175,564
Non-controlling interests		(22)	209
Earnings per share from continuing operations (full TL)			
Equity holders of the Bank		0.001835	0.002926
Non-controlling interests		0.000001	0.000003
Equity holders of the Bank		0.001835	0.002926
Non-controlling interests		0.000001	0.000003

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012

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

	Notes	2013	2012
Profit for the year		**110,111**	**175,773**
Other comprehensive income:			
Foreign currency translation differences for foreign operations		45,197	(6,464)
Fair value reserve of available for sale financial assets transferred to profit or loss		(199,801)	153,087
Other comprehensive income for the year, net of income taxes		**(154,604)**	**146,623**
Total comprehensive income for the year		**(44,493)**	**322,396**
Profit attributable to:			
Equity holders of the Bank		110,133	175,564
Non-controlling interests		(22)	209
Profit for the year		**110,111**	**175,773**
Total comprehensive income attributable to:			
Equity holders of the Bank		(44,485)	322,194
Non-controlling interests		(8)	202
Total comprehensive income for the year		**(44,493)**	**322,396**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

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

		Attributable to equity holders of the Bank								
	Notes	**Share capital**	**Legal reserves**	**Other reserves**	**Translation reserve**	**Fair value reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total**
Balances at 1 January 2012	*17*	**602,619**	**29,576**	**-**	**27,800**	**(2,690)**	**289,002**	**946,307**	**1,946**	**948,253**
Net profit for the year		-	-	-	-	-	175,564	**175,564**	**209**	**175,773**
Total other comprehensive income		-	-	-	**(6,457)**	**153,087**	-	**146,630**	**(7)**	**146,623**
- Other comprehensive income		-	-	-	-	*153,087*	-	*153,087*	-	*153,087*
- Currency translation adjustments		-	-	-	*(6,457)*	-	-	*(6,457)*	*(7)*	*(6,464)*
Total comprehensive income for the year		-	-	-	**(6,457)**	**153,087**	**175,564**	**322,194**	**202**	**322,396**
		-	-	-	-	-	-	-	-	-
Transactions with owners, recorded directly in equity		-	-	-	-	-	-	-	-	-
Gains on sale of assets		-	-	60	-	-	(60)	-	-	-
Transfers to other reserves		-	4,547	-	-	-	(4,547)	-	-	-
Balances at 31 December 2012	*17*	**602,619**	**34,123**	**60**	**21,343**	**150,397**	**459,959**	**1,268,501**	**2,148**	**1,270,649**

		Attributable to equity holders of the Bank								
	Notes	**Share capital**	**Legal reserves**	**Other reserves**	**Translation reserve**	**Fair value reserve**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total**
Balances at 1 January 2013	*17*	**602,619**	**34,123**	**60**	**21,343**	**150,397**	**459,959**	**1,268,501**	**2,148**	**1,270,649**
Net profit for the year		-	-	-	-	-	**110,133**	**110,133**	**(22)**	**110,111**
Total other comprehensive income		-	-	-	**45,183**	**(199,801)**	-	**(154,618)**	**14**	**(154,604)**
- Other comprehensive income		-	-	-	-	*(199,801)*	-	*(199,801)*		*(199,801)*
- Currency translation adjustments		-	-	-	*45,183*	-	-	*45,183*	*14*	*45,197*
Total comprehensive income for the year		-	-	-	45,183	(199,801)	**110,133**	**(44,485)**	**(8)**	**(44,493)**
		-	-	-	-	-	-		-	-
Transactions with owners, recorded directly in equity		-	-	-	-	-	-		-	-
Gains on sale of assets		-	-	-	-	-	-		-	-
Transfers to other reserves		-	8,813	-	-	-	(8,813)		-	-
Balances at 31 December 2013	*17*	**602,619**	**42,936**	**60**	**66,526**	**(49,404)**	**561,279**	**1,224,016**	**2,140**	**1,226,156**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

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

	Notes	2013	2012
Cash flows from operating activities:			
Profit for the year		110,111	175,773
Adjustments for:			
Taxation	*17*	27,819	41,477
Provision for loan losses		56,327	91,510
Depreciation and amortisation	*22*	8,364	6,916
Provision for retirement pay liability	*16*	2,554	5,168
Unused vacation accruals	*16*	790	1,565
Derivative financial instruments		(30,446)	(57,231)
Currency translation differences		45,198	(6,464)
Net interest income		(390,655)	(445,566)
Other		(15,632)	17,215
Operating profit before changes in operating assets/liabilities:		**(185,570)**	**(169,637)**
Reserve deposits at the Central Bank		(197,743)	(181,148)
Financial assets at fair value through profit or loss		37,366	275,436
Loans and receivables		(1,184,221)	(602,610)
Change in funds borrowed (net)		298,518	(67,237)
Other assets		(86,566)	33,343
Deposit with other banks and customers		1,221,396	347,020
Other liabilities and provisions		85,108	101,182
		(11,712)	**(263,651)**
Interest paid		(292,323)	(385,436)
Interest received		655,801	823,898
Retirement benefits paid	*16*	(2,323)	(2,813)
Unused vacation accruals	*16*	(952)	(380)
Income taxes paid		(32,366)	(40,360)
Cash provided by operating activities		**316,125**	**131,258**
Cash flows from investing activities			
Acquisition of investment securities	*8*	(21,120)	(127,388)
Proceeds from sale of investment securities	*8*	4,481	64,574
Acquisition of property and equipment		(10,366)	(11,354)
Proceeds from sale of property and equipment		773	908
Acquisition of intangible assets		(800)	(1,661)
Proceeds from intangible assets		138	-
Acquisitions of available-for-sale investment securities		(540,371)	-
Proceeds from sale of available-for-sale investment securities		378,930	-
Cash used in investing activities		**(188,335)**	**(74,921)**
Cash flows from financing activities		-	-
Effect of exchange rate fluctuations on cash held		57,771	(5,699)
Net increase in cash and cash equivalents		185,561	50,638
Cash and cash equivalents at the beginning of the year	*5*	568,670	518,032
Cash and cash equivalents at the end of the year	*5*	**754,231**	**568,670**

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

1. Overview of the Bank

Anadolubank Anonim Şirketi (the "Bank"), started its operations on 25 September 1997 in Turkey under the Turkish Banking Law and the Commercial Code pursuant to the permit of Turkish Undersecretariat of Treasury dated 25 August, 1997 and numbered 39692. The Bank provides corporate, commercial and retail banking services through a network of 115 (31 December 2012: 91) domestic branches. The address of the headquarters and registered office of the Bank is Cumhuriyet Mahallesi Silahşör Cad. No: 77 34380 Bomonti-Şişli / Istanbul-Turkey. The ultimate parent of the Bank is Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ.

Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ was founded by Hamdi Başaran in 1956 with the name "Hamdi Başaran Topkapı Oxygen Plant" to implement modern industrial gas production. The growth of the company started in 1967 with the production of oxygen, nitrogen and argon gases in liquid form for the first time in Turkey. Today, Habaş, is one of the major companies of Turkey, producing industrial and medical gases, steel, electrical energy, heavy machinery, distributing Liquified Petroleum Gas ("LPG"), Liquified Natural Gas ("LNG") and Compressed Natural Gas ("CNG"), offering sea transportation services for LPG and operating sea ports.

The Bank has four subsidiaries which are Anadolubank International Banking Unit Limited ("Anadolubank International"), Anadolu Yatırım Menkul Kıymetler AŞ ("Anadolu Yatırım"), Anadolu Faktoring Hizmetleri AŞ ("Anadolu Faktoring"), and Anadolubank Nederland N.V. ("Anadolubank Nederland").

The Bank has 99.40% ownership in Anadolubank International, established in the Turkish Republic of Northern Cyprus ("TRNC"). Anadolubank International is licensed to undertake all commercial banking transactions.

The Bank has 82% ownership in Anadolu Yatırım, a brokerage and investment company, located in Istanbul. Anadolu Yatırım was established on 21 September 1998 and mainly involved in trading of and investing in securities, stocks, treasury bills and government bonds provided from capital markets; the management of mutual funds and performing intermediary services.

The Bank has acquired 99.99% of Anadolu Faktoring from Habaş Petrol Ürünleri Sanayi ve Ticaret AŞ (which is a related party) on 27 October 2008. Anadolu Faktoring was established in Istanbul on 20 March 2007 by obtaining the factoring license which is required to operate in the factoring sector.

The Bank has 100.00% ownership in Anadolubank Nederland, located in Amsterdam – the Netherlands. The Bank engages in banking operations in the Netherlands.

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

2. Basis of preparation

(a) Statement of compliance

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

The Bank and its Turkish subsidiaries maintain their books of account and prepare their statutory financial statements in Turkish Lira ("TL") in accordance with the accounting practices as promulgated by the Banking Regulation and Supervision Agency ("BRSA"), the Capital Markets Board of Turkey, the Turkish Commercial Code, and the Turkish Tax Legislation. The Bank's foreign subsidiaries maintain their books of account and prepare their statutory financial statements in USD and in EUR in accordance with the regulations of the countries in which they operate.

The consolidated financial statements as at 31 December 2013 of the Bank are authorised for issue by the management on 12 March 2014. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except for the following assets and liabilities which are stated at their fair values if reliable measures are available: derivative financial assets and liabilities held for trading purposes, financial assets at fair value through profit or loss and available for sale financial assets.

(c) Functional currency and presentation currency

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

(d) Accounting in hyperinflationary countries

Financial statements of the Turkish entities have been restated for the changes in the general purchasing power of the Turkish Lira based on IAS 29 – *Financial Reporting in Hyperinflationary Economies* as at 31 December 2005. *IAS 29* requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the reporting date, and that corresponding figures for previous years be restated in the same terms. One characteristic that necessitates the application of *IAS 29* is a cumulative three-year inflation rate approaching or exceeding 100%. The cumulative three-year inflation rate in Turkey was 35.61% as at 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by the Turkish Statistical Institute ("TURKSTAT"). This, together with the sustained positive trend in quantitative factors, such as the stabilisation in capital and money markets, decrease in interest rates and the appreciation of TL against the USD and other hard currencies have been taken into consideration to categorise Turkey as a non-hyperinflationary economy under *IAS 29* effective from 1 January 2006.

2. Basis of preparation *(continued)*

(e) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make judgments, 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 at estimation uncertainty and critical judgment in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 7 – Derivative financial assets and liabilities held for trading purpose
- Note 9 – Loans and receivables
- Note 16 – Other liabilities and provisions
- Note 17 – Income taxes payable
- Note 26 – Financial risk management

2.6. Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies as set out in Note 3 to all periods presented in these consolidated financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

- IFRS 10 Consolidated financial statements (2011),
- IFRS 12 Disclosure of interests in other entities,
- IFRS 13 Fair value measurement,
- Disclosures – Offsetting financial assets and financial liabilities (Amendments to IFRS 7),
- Presentation of Items of other comprehensive income (Amendments to IAS 1),
- IAS 19 Employee benefits (2011).

(a) Subsidiaries, including structured entities

As a result of IFRS 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates other entities. IFRS 10 (2011) introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect those returns.

In accordance with the transitional provisions of IFRS 10 (2011), the Group reassessed its control conclusions as of 1 January 2013. The change did not have a material impact on the Group's financial statements.

2.6 Changes in accounting policies *(continued)*

(b) Interests in other entities

As a result of IFRS 12, the Group has expanded disclosures about its interests in subsidiaries. The disclosure requirements related to its involvement in unconsolidated structured entities are not included in the comparative information.

(c) Fair value measurement

In accordance with the transitional provisions of IFRS 13, the Group has applied the new definition of fair value, prospectively. The change had no significant impact on the measurements of the Group's assets and liabilities, but the Group has included new disclosures in the financial statements, which are required under IFRS 13. These new disclosure requirements are not included in the comparative information. However, to the extent that disclosures were required by other standards before the effective date of IFRS 13, the Group has provided the relevant comparative disclosures under those standards.

(d) Offsetting financial assets and financial liabilities

As a result of the amendments to IFRS 7, the Group has expanded disclosures about offsetting financial assets and financial liabilities.

(e) Presentation of items of OCI

As a result of the amendments to IAS 1, the Group has modified the presentation of items of OCI in its statement of profit or loss and OCI, to present items that would be reclassified to profit or loss in the future separately from those that would never be. Comparative information has been re-presented on the same basis.

(f) Post-employment defined benefit plans As a result of IAS 19 (2011)

The Group has changed its accounting policy with respect to the basis for determining the income or expense related to its defined benefit plans. Under IAS 19 (2011), the Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Consequently, the net interest on the net defined benefit liability (asset) now comprises:

- interest cost on the defined benefit obligation;
- interest income on plan assets; and
- interest on the effect on the asset ceiling.

The change did not have a material impact on the Group's financial statements.

3. Significant accounting policies

Except the changes disclosed in Note 2.6, the accounting policies set out below have been applied consistently to all periods presented in these financial statements.

3.1. Basis of consolidation

(i) Non-controlling interests

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(ii) Subsidiaries

'Subsidiaries' are investees controlled by the Group. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

(iii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing 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.

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

3. Significant accounting policies *(continued)*

3.2. Foreign currency

i) Foreign currency transactions

Transactions are recorded in TL, which represents the Group's functional currency except for Anadolubank International and Anadolubank Nederland. Transactions denominated in foreign currencies are recorded at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies on the reporting date are retranslated to the functional currency at the exchange rate on that date. Foreign currency differences arising on retranslation are recognised in profit or loss and other comprehensive income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

The official TL exchange rates used by the Group for foreign currency translation are as follows:

	EUR / TL	USD / TL
31 December 2013	2.9365	2.1343
31 December 2012	2.3517	1.7826

ii) Foreign operations

The asset and liabilities of foreign subsidiaries are translated into presentation currency of the Group at the rate of exchange ruling at the reporting date. The income statement of foreign subsidiaries 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 subsidiaries, are recognised in other comprehensive income ("OCI"), 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.

3.3 Interest

Interest income and expense are recognised in profit or loss 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.

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.

Interest income and expense presented in the statement of profit or loss and OCI include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest for available-for-sale investment securities calculated on an effective interest basis,

3. Significant accounting policies *(continued)*

3.4. Fees and commission

Fees and commission income and expenses that are integral to the effective rate on a financial asset or liability are included in the measurement of the effective rate.

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees are recognised as the related services are provided. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

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, except for the unrealised gains of available for sale securities.

3.6. Dividends

Dividend income is recognised when the right to receive the income is established.

3.7. Lease payments made

Payments made under operating leases are recognised in profit or loss and other comprehensive income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest rate on the remaining balance of the liability.

3. Significant accounting policies *(continued)*

3.8. Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to items recognised directly in equity or in profit or loss and 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 is not recognised for:

- temporary differences on the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

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

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

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

3. Significant accounting policies *(continued)*

3.9. Financial assets and liabilities

Recognition

The Group initially recognises loans, lease receivables and advances, deposits and funds borrowed on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date on which the Group commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value profit or loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Classification

Financial assets:

The Group classifies its financial assets into one of the following categories:

Loans and receivables

Held to maturity

Available-for-sale; and

At fair value through profit or loss, and within this category as:

- held for trading.

See 3.10, 3.11, 3.12 and 3.13.

Financial liabilities:

The Group classifies its financial liabilities as measured at amortised cost. See 3.19.

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.

3. Significant accounting policies *(continued)*

3.9. Financial assets and liabilities *(continued)*

Offsetting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to set off the recognised amounts and it 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.

Amortised cost measurement

Policy applicable from 1 January 2013

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

3. Significant accounting policies *(continued)*

3.9. Financial assets and liabilities *(continued)*

Amortised cost measurement *(continued)*

Policy applicable before 1 January 2013

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Group establishes fair value using a valuation technique. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price – i.e. the fair value of the consideration given or received. However, in some cases the initial estimate of fair value of a financial instrument on initial recognition may be different from its transaction price. If this estimated fair value is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognised in profit or loss on initial recognition of the instrument. In other cases, the fair value at initial recognition is considered to be the transaction price and the difference is not recognised in profit or loss immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes 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 profit or loss.

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

3. Significant accounting policies *(continued)*

3.9. Financial assets and liabilities *(continued)*

Identification and measurement of impairment

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

Loans and receivables are presented net of specific and portfolio basis allowances for uncollectibility. Specific allowances are made against the carrying amount of loans and receivables that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and receivable to their recoverable amounts. In assessing the recoverable amounts of the loans and receivables, the estimated future cash flows are discounted to their present value. Portfolio basis allowances are maintained to reduce the carrying amount of portfolios of similar loans and receivables to their estimated recoverable amounts at the reporting date. In order to determine allowance rate for portfolio basis, the Group uses historical allowance rates based on its own statistical data.

Objective evidence that financial assets are 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 rate, penalty or principal payments;
- 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 becomes 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 Bank.

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.

3. Significant accounting policies *(continued)*

3.9. Financial assets and liabilities *(continued)*

Identification and measurement of impairment (continued)

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 profit or loss.

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.

3.10. 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. Significant accounting policies *(continued)*

3.11 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 statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition, except that non-derivative trading assets, other than those designated at fair value through profit or loss on initial recognition, may be reclassified out of the fair value through profit or loss – i.e. trading – category if they are no longer held for the purpose of being sold or repurchased in the near term and the following conditions are met.

- If the financial asset would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held-for-trading at initial recognition), then it may be reclassified if the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in rare circumstances.

3.12. Loans, lease receivables and advances

Loans, lease receivables and advances 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 loans, lease receivables and advances are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. The amortisation is included in "Interest income" in profit or loss. The losses arising from impairment are recognised in profit or loss in "Net impairment loss on financial assets".

3. Significant accounting policies *(continued)*

3.13. Investment securities

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 is 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.

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 profit or loss 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 profit or loss, is transferred from other comprehensive income to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit or loss. Reversals of impairment losses on debt instruments are reversed through profit or loss; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

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

3. Significant accounting policies *(continued)*

3.14. Property and equipment

Recognition and measurement

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

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

Subsequent costs

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

Depreciation

Depreciation is recognised in profit or loss 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:

	Years
Buildings and land improvements	50
Machinery and equipment	5
Office equipment	5
Furniture, fixtures and vehicles	5
Leasehold improvements	shorter of the useful life of the asset or the lease term

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. Significant accounting policies *(continued)*

3.15. Intangible assets

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

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 profit or loss 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 five years.

3.16 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.

3.17. 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 profit or loss 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. Significant accounting policies *(continued)*

3.18. 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.

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 statement of comprehensive income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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

An impairment loss in respect of other assets, impairment losses recognised in prior periods is 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.

3.19. Deposits, funds borrowed

Deposits are the Bank's main source of debt funding. Deposits of the Bank comprised of the deposits from banks and customers.

Deposits and funds borrowed are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3.20. 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. Significant accounting policies *(continued)*

3.21. Employee benefits

Reserve for employee severance indemnity

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Group arising from the retirement of the employees and calculated in accordance with the Turkish Labour Law. Employment termination benefit is not a funded liability and there is no requirement to fund it. Employment termination benefit is calculated based on the estimation of the present value of the employee's probable future liability arising from the retirement. IAS 19 (2011) ("Employee Benefits") requires actuarial valuation methods to be developed to estimate the bank's obligation under defined employee plans. IAS 19 (2011) ("Employee Benefits") has been revised effective from the annual period beginning after 1 January 2013. In accordance with the revised standard, actuarial gain / loss related to employee benefits shall be recognised in other comprehensive income.

Short-term employee benefits

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

A liability is recognised for the amount expected to be paid under short-term cash bonus 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.

The Group does not have any internally set defined contribution plan.

3.22. Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group's Management Committee (being chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the Board of Directors include items directly attributable to that segment as well as those that can be allocated on a reasonable basis.

3.23. Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the reporting dates (adjusting events) are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes when material.

3. Significant accounting policies *(continued)*

3.24. 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 2013, 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:

IFRS 9 Financial Instruments (2013), IFRS 9 Financial Instruments (2010) and IFRS 9 Financial Instruments (2009) (together, IFRS 9)

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. IFRS 9 (2013) introduces new requirements for hedge accounting. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets.

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables. For an investment in an equity instrument that is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in OCI. No amount recognised in OCI would ever be reclassified to profit or loss at a later date. However, dividends on such investments would be recognised in profit or loss, rather than OCI, unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in OCI would be measured at fair value with changes in fair value recognised in profit or loss.

The standard requires derivatives embedded in contracts with a host that is a financial asset in the scope of the standard not to be separated; instead, the hybrid financial instrument is assessed in its entirety for whether it should be measured at amortised cost or fair value.

3. Significant accounting policies *(continued)*

3.24. New standards and interpretations not yet adopted *(continued)*

IFRS 9 Financial Instruments (2013), IFRS 9 Financial Instruments (2010) and IFRS 9 Financial Instruments (2009) (together, IFRS 9) (continued)

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in OCI rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 (2013) introduces new requirements for hedge accounting that align hedge accounting more closely with risk management. The requirements also establish a more principles-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39.

The mandatory effective date of IFRS 9 is not specified but will be determined when the outstanding phases are finalised. However, application of IFRS 9 is permitted.

The Group has started the process of evaluating the potential effect of this standard but is awaiting finalisation of the limited amendments before the evaluation can be completed.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

The amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. Early application is permitted. The Group is still evaluating the potential effect of the adoption of the amendments to IAS 32.

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

The amendments to IAS 36 reverse the unintended requirement in IFRS 13 *Fair Value Measurement* to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, recoverable amount is required to be disclosed only when an impairment loss has been recognised or reversed. The amendments apply retrospectively for annual periods beginning on or after 1 January 2014. Early application is permitted, which means that the amendments can be adopted at the same time as IFRS 13. The Group is still evaluating the potential effect of the adoption of the amendments to IAS 36.

Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)

The amendments add a limited exception to IAS 39, to provide relief from discontinuing an existing hedging relationship when a novation that was not contemplated in the original hedging documentation meets specific criteria. The amendments are effective for annual periods beginning on or after 1 January 2014. Early application is permitted. The Group is still evaluating the potential effect of the adoption of the amendments to IAS 39.

IFRIC 21 Levies

IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It confirms that an entity recognises a liability for a levy when – and only when – the triggering event specified in the legislation occurs. IFRIC 21 is not expected to have a material effect on the Group's financial statements.

4. Operating segments

The Group has four reportable segments, as described below, 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. For each of the strategic business units, the chief operating decision maker, the Board of Directors reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

Investment banking

Includes the Group's trading and corporate finance activities.

Corporate and commercial banking

Includes loans, deposits and other transactions and balances with corporate customers.

Retail banking

Includes loans, deposits and other transactions and balances with retail customers.

Treasury

Undertakes the Group's funding and centralised risk management activities through borrowings, and investing in liquid assets such as short-term placements and corporate and government debt securities.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Board of Directors. Segment profit is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis.

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

4. Operating segments *(continued)*

Information about operating segments

31 December 2013	Retail banking	Corporate and commercial banking	Treasury	Investment banking	Others	Consolidated
Net interests, fees, and commissions income	161,754	182,486	98,985	5,463	48	448,736
Other operating income and expenses, net	(112,029)	(126,387)	(68,555)	(3,784)	(51)	(310,806)
Profit before taxes	**49,725**	**56,099**	**30,430**	**1,679**	**(3)**	**137,930**

31 December 2013	Retail banking	Corporate and commercial banking	Treasury	Investment banking	Others	Consolidated
Segment assets	1,987,950	4,246,902	2,291,540	79,146	412,786	9,018,324
Total assets	**1,987,950**	**4,246,902**	**2,291,540**	**79,146**	**412,786**	**9,018,324**
Segment liabilities	1,938,787	3,839,160	1,631,072	32,724	350,425	7,792,168
Equity and non-controlling interests					1,226,156	1,226,156
Total liabilities and equity	**1,938,787**	**3,839,160**	**1,631,072**	**32,724**	**1,576,581**	**9,018,324**
Other segment assets:						
Capital expenditures	-	-	-	-	11,032	**11,032**
Depreciation and amortisation expenses	-	-	-	-	8,364	**8,364**
Other non-cash income/expenses	33,028	35,374	22,002	1,416	-	**91,820**

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

4. Operating segments *(continued)*

Information about operating segments *(continued)*

31 December 2012	**Retail banking**	**Corporate and commercial banking**	**Treasury**	**Investment banking**	**Others**	**Consolidated**
Net interests, fees, and commissions income	202,294	246,595	42,999	9,665	293	501,846
Other operating income and expenses, net	(106,490)	(156,496)	(15,483)	(5,849)	(278)	(284,596)
Profit before taxes	**95,804**	**90,099**	**27,516**	**3,816**	**15**	**217,250**

31 December 2012	**Retail banking**	**Corporate and commercial banking**	**Treasury**	**Investment banking**	**Others**	**Consolidated**
Segment assets	1,760,958	3,511,927	1,806,592	40,104	242,732	7,362,313
Total assets	**1,760,958**	**3,511,927**	**1,806,592**	**40,104**	**242,732**	**7,362,313**
Segment liabilities	1,402,861	2,797,764	1,439,214	31,949	419,876	6,091,664
Equity and non-controlling interests	-	-	-	-	1,270,649	1,270,649
Total Liabilities and Equity	**1,402,861**	**2,797,764**	**1,439,214**	**31,949**	**1,690,525**	**7,362,313**
Other segment assets:						
Capital expenditures	-	-	-	-	15,911	**15,911**
Depreciation and amortisation expenses	-	-	-	-	6,916	**6,916**
Other non-cash income/expenses	20,269	22,754	6,594	878	-	**50,495**

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

5. Cash and cash equivalents

	31 December 2013	31 December 2012
Cash on hand	60,373	45,528
Reserve deposits at the Central Bank	798,682	615,786
Balances with the Central Bank	63	61
Total	**859,118**	**661,375**
Deposits with banks and other financial institutions	340,836	272,087
Receivables from reverse repurchase transactions	150,032	80,014
Total cash and cash equivalents in the consolidated statement of financial position	**1,349,986**	**1,013,476**
Statutory reserves at the Central Bank	(534,465)	(434,977)
Blocked deposits with banks and other financial institutions	(61,179)	(9,808)
Interest accruals on cash and cash equivalents	(111)	(21)
Cash and cash equivalents in the consolidated statement of cash flows	**754,231**	**568,670**

As at 31 December 2013, deposits with banks amounted to 61,179 (31 December 2012: TL 9,808) are blocked at financial institutions for the interest rate swaps and credit default swaps entered into by the Group.

As at 31 December 2013 and 2012, details of cash and cash equivalents are as follows:

	31 December 2013			
	Amount		**Effective interest rate (%)**	
	TL	**FC**	**TL**	**FC**
Balances with the Central Bank	202,565	596,180	-	-
Deposits with banks and other financial institutions	5,267	335,569	8.00	0.03 - 0.45
Receivables from reverse repurchase agreements	150,032	-	7.74	-
Total	**357,864**	**931,749**		

	31 December 2012			
	Amount		**Effective interest rate (%)**	
	TL	**FC**	**TL**	**FC**
Balances with the Central Bank	123,531	492,316	-	-
Deposits with banks and other financial institutions	23,907	248,180	5.25	0.07-0.50
Receivables from reverse repurchase agreements	80,014	-	6.20-6.50	-
Total	**227,452**	**740,496**		

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

6. Trading assets

	31 December 2013		31 December 2012	
Debt instruments	**Carrying value**	**Effective interest rate (%)**	**Carrying value**	**Effective interest rate (%)**
Eurobonds issued by the Turkish Government	533	2.55 – 6.94	64	3.80-4.48
Government bonds in TL	74,410	7.98 – 10.19	131,011	6.16-13.68
Equity securities	11,528	-	1,959	-
Eurobonds issued by other Governments, Public and Private Eurobonds	53,284	15.98	20,446	15.98
Total	**139,755**		**153,480**	

Debt instruments are given as collateral under repurchase agreements:

	31 December 2013	31 December 2012
Deposited at financial institutions for repurchase transactions	79,684	37,827

As at 31 December 2013, the carrying and the nominal values of government securities kept at Istanbul Menkul Kıymetler Borsası Takas ve Saklama Bankası Anonim Şirketi (Takasbank - Istanbul Stock Exchange Clearing and Custody Incorporation) and in Capital Markets Board of Turkey for legal requirements and as a guarantee for stock exchange and money market operations are amounting to TL 4,569 (31 December 2012: TL 61).

7. Derivative financial assets / liabilities held for trading purpose

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. 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. Derivative financial instruments of the Group mainly include foreign currency forwards, cross currency interest rate swaps, foreign currency options, and credit default swaps.

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

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

7. Derivative financial assets / liabilities held for trading purpose *(continued)*

The fair value of derivative financial instruments is calculated by using forward exchange rates at the reporting date and option pricing models. In the absence of reliable forward rate estimations in a volatile market, current market rate is considered to be the best estimate of the present value of the forward exchange rates.

	31 December 2013								
	Fair value assets	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**More than 5 years**
Derivatives financial instruments held for trading purpose:									
Forward purchase contract	5,350	3,340	909,870	876,429	19,509	13,644	288	-	-
Forward sale contract	-	-	876,256	842,897	19,477	13,595	287	-	-
Currency swap purchase	70,320	29,896	2,870,692	2,129,231	45,483	161,392	459,226	75,360	-
Currency swap sale	-	-	2,864,760	2,132,844	43,923	158,572	455,932	73,489	-
Credit default swap sale	-	-	-	-	-	-	-	-	-
Interest rate swap purchase	-	-	-	-	-	-	-	-	-
Interest rate swap sale	-	-	-	-	-	-	-	-	-
Put option purchase	-	384	333,186	169,691	108,919	11,221	43,355	-	-
Put option sale	-	-	337,239	173,360	108,919	11,221	43,739	-	-
Total	**75,670**	**33,620**	**8,192,003**	**6,324,452**	**346,230**	**369,645**	**1,002,827**	**148,849**	**-**

	31 December 2012								
	Fair value assets	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**1 to 5 years**	**More than 5 years**
Derivatives financial instruments held for trading purpose:									
Forward purchase contract	63	-	348,872	340,973	5,189	1,374	1,336	-	-
Forward sale contract	-	172	340,832	332,944	5,183	1,372	1,333	-	-
Currency swap purchase	18,077	-	1,352,797	1,052,086	53,939	100,645	65,425	80,702	-
Currency swap sale	-	6,453	1,351,106	1,050,817	53,550	97,836	65,347	83,556	-
Credit default swap sale	-	-	-	-	-	-	-	-	-
Interest rate swap purchase	-	-	3,484	-	-	3,484	-	-	-
Interest rate swap sale	-	-	3,484	-	-	3,484	-	-	-
Put option purchase	89	-	654,301	474,560	92,384	83,529	3,828	-	-
Put option sale	-	-	661,412	481,671	92,384	83,529	3,828	-	-
Total	**18,229**	**6,625**	**4,716,288**	**3,733,051**	**302,629**	**375,253**	**141,097**	**164,258**	**-**

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

8. Investment securities

	31 December 2013		31 December 2012	
	Amount	Effective interest rate (%)	Amount	Effective interest rate (%)
Debt instruments:				
Turkish government bonds	-	-	-	-
Eurobonds issued by the Turkish Government	688,800	4.90 – 7.69	689,031	6.69-7.41
Foreign currency denominated bonds	67,141	0.73 – 4.78	11,649	0.87-5.94
Total available for sale securities	**755,941**		**700,680**	
Debt instruments:				
Turkish government bonds	11,123	16.47	9,003	14.99
Eurobonds issued by the Turkish Government	206,539	0.93 – 4.00	166,195	1.24-5.00
Foreign currency denominated bonds	-	-	-	-
Total held to maturity securities	**217,662**		**175,198**	

Carrying value of held-to-maturity debt securities given as collateral under repurchase agreements and for other banking transactions under the normal course of the banking operations are as follows:

	31 December 2013	31 December 2012
Deposited at financial institutions for repurchase transactions	125,697	71,557
Other collaterals	82,447	65,585
Total	**208,144**	**137,142**

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

8. Investment securities *(continued)*

	31 December 2013	31 December 2012
Balances at beginning of period	**175,198**	**652,700**
Foreign currency differences on monetary assets	25,588	(28,087)
Purchases during the period	21,120	127,388
Disposals through sales and redemptions(1)	(4,481)	(64,574)
Allowance for impairment(2)	-	(7,223)
Changes in amortised cost(3)	4,074	(5,411)
Transfer to available for sale portfolio(4)	(3,837)	(499,595)
Balances at end of period	**217,662**	**175,198**

(1) Anadolubank N.V., subsidiary of the Group, disposed securities amounting to 28,750,000 EUR (full) from the held-to-maturity portfolio in order to increase its capital adequacy ratio due to the changes in the local regulations in 2010. The Group will be able to continue its investment securities to classify as "held-to-maturity", since this disposal is a mandatory action due to the change in the local regulation, which is an exception in IAS 39, mentioning that "if an entity sells a held-to-maturity investment other than in insignificant amounts or as a consequence of a non-recurring, isolated event beyond its control that could not be reasonably anticipated".

(2) Due to the economic situation in Greece worsened and based on the international discussions on this issue, it has been decided to provide permanent provision for impairment of the 50% of the notional values of the Greek bonds in the Anadolubank N.V. portfolio.

(3) Changes in amortised cost include accrual interest on securities.

(4) As per the legislation on capital adequacy (Basel II) effective from 1 July 2012, the risk weighting of securities in foreign currencies issued by the Turkish Treasury increased from 0% to 100%. Accordingly, in the current period, the Bank transferred for the purpose of selling a part of its Eurobonds with a total face value of USD 238,000,000 (full) from its held-to-maturity portfolio as per the exception granted by IAS 39 for the sale of securities originally classified under the securities held-to-maturity in cases where the capital requirement increases due to legal legislation.

As at 31 December 2013, carrying values of underlying financial assets classified as held-to-maturity investments collateralised against repurchase agreements were amounted to TL 125,697 (31 December 2012: TL 71,557).

As at 31 December 2013, carrying values of underlying financial assets classified as available-for-sale investments collateralised against repurchase agreements are amounted to TL 712,060 (31 December 2012: 649,441).

As at 31 December 2013, the carrying and the nominal values of the securities issued by the Turkish Government kept at the Central Bank of Turkey, Istanbul Menkul Kıymetler Borsası Takas ve Saklama Bankası Anonim Şirketi ("Takasbank" – Istanbul Stock Exchange Clearing and Custody Incorporation) and Vadeli İşlem ve Opsiyon Borsası Anonim Şirketi ("Derivatives Exchange") for legal requirements and as a guarantee for stock exchange and money market operations are amounted to TL 10,129 and TL 7,300 (31 December 2012: TL 9,003 and TL 7,300); respectively.

As at 31 December 2013, carrying values and nominal values of held to maturity securities kept at De Nederlansche Bank ("Dutch Central Bank") as reserve requirement against the Group's foreign operations in the Netherlands are amounted to TL 70,999 and TL 72,318 (31 December 2012: TL 56,581 and TL 56,882); respectively.

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

9. Loans and receivables

	31 December 2013						
	Amount				Effective interest rate (%)		
	TL	FC	FC indexed	Total	TL	FC	FC indexed
Corporate loans	3,727,154	1,176,379	463,412	**5,366,945**	7.20-37.02	1.91-8.05	3.15-10.50
Consumer loans	500,633	1,087	52,040	**553,760**	2.64-30.60	3.60-6.00	3.60-11.88
Credit cards	128,312	185	-	**128,497**	24.24	-	-
Factoring receivables	152,917	-	-	**152,917**	7.18-32.50	-	-
Total performing loans	**4,509,016**	**1,177,651**	**515,452**	**6,202,119**			
Non-performing loans	-	-	-	177,860	-	-	-
Allowance for:	-	-	-	-	-	-	-
Individually impaired loans	-	-	-	(116,127)	-	-	-
Collectively impaired loans	-	-	-	(66,161)	-	-	-
Loans and receivables, net	**-**	**-**	**-**	**6,197,691**	**-**	**-**	**-**

	31 December 2012						
	Amount				Effective interest rate (%)		
	TL	FC	FC indexed	Total	TL	FC	FC indexed
Corporate loans	3,200,804	847,032	134,638	4,182,474	6.10-35.75	1.76-10.90	4.00-10.00
Consumer loans	576,252	-	76,140	652,392	4.32-30.60	-	4.08-11.88
Credit cards	108,130	58	-	108,188	28.08	-	-
Factoring receivables	115,464	-	-	115,464	6.10-35.53	-	-
Total performing loans	**4,000,650**	**847,090**	**210,778**	**5,058,518**			
Non-performing loans	-	-	-	177,055	-	-	-
Allowance for:	-	-	-		-	-	-
Individually impaired loans	-	-	-	(124,366)	-	-	-
Collectively impaired loans	-	-	-	(52,689)	-	-	-
Loans and receivables, net				**5,058,518**			

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

9. Loans and receivables *(continued)*

The specific allowance for possible loan losses is comprised of amounts for specifically identified as being impaired and non-performing loans and advances plus a further amount considered adequate to cover the inherent risk of loss present in the lending relationships presently performing in accordance with agreements made with borrowers.

Movements in the reserve for possible loan losses:

	31 December 2013	31 December 2012
Reserve at beginning of the period/year	177,055	90,851
Provision for possible loan losses, net of recoveries	56,327	86,204
- Provision for possible loan losses	*75,898*	*93,481*
- Recoveries	*(19,571)*	*(7,277)*
Provision, net of recoveries	**56,327**	**86,204**
Loans written off during the period/year	(56,493)	-
Foreign currency differences on monetary assets	5,399	-
Reserve at end of the period/year	**182,288**	**177,055**

10. Factoring receivables

As at 31 December 2013 and 2012, short-term and long-term factoring receivables included in the loans and receivables above are as follows:

	31 December 2013	31 December 2012
Short-term	147,686	112,760
Long-term	5,231	2,704
Total	**152,917**	**115,464**

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

11. Property and equipment

Movements of property and equipment as at and for the year ended 31 December 2013 and 2012 are as follows:

	Buildings	Motor vehicles	Furniture, office equipment and leasehold improve-ments	Total
Cost				
Opening balance, 1 January 2012	3,799	7,949	68,794	80,542
Additions	-	788	10,566	11,354
Disposals	-	(75)	(833)	(908)
Closing balance, 31 December 2012	**3,799**	**8,662**	**78,527**	**90,988**
Opening balance, 1 January 2013	3,799	8,662	78,527	90,988
Additions	-	17	10,349	10,366
Disposals	-	(727)	(46)	(773)
Closing balance, 31 December 2013	**3,799**	**7,952**	**88,830**	**100,581**
Accumulated depreciation:				
Opening balance, 1 January 2012	1,084	4,195	56,353	61,632
Additions	76	1,414	4,032	5,522
Disposals	-	(57)	(203)	(260)
Closing balance, 31 December 2012	**1,160**	**5,552**	**60,182**	**66,894**
Opening balance, 1 January 2013	1,160	5,552	60,182	66,894
Additions	76	1,057	6,298	7,431
Disposals	-	(660)	(13)	(673)
Closing balance, 31 December 2013	**1,236**	**5,949**	**66,467**	**73,652**
Net book value				
1 January 2012	2,715	3,754	12,441	18,910
31 December 2012	2,639	3,110	18,345	24,094
31 December 2013	2,563	2,003	22,363	26,929

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

12. Intangible assets

Movements of intangible assets as at and for the year ended 31 December 2013 and 2012 are as follows:

	Software	Other intangibles	Total
Cost			
Opening balance, 1 January 2012	13,003	1,356	14,359
Additions	1,661	-	1,661
Disposals	-	-	-
Closing balance, 31 December 2012	**14,664**	**1,356**	**16,020**
Opening balance, 1 January 2013	14,664	1,356	16,020
Additions	800	-	800
Disposals	(138)	-	(138)
Closing balance, 31 December 2013	**15,326**	**1,356**	**16,682**
Accumulated amortisation:			
Opening balance, 1 January 2012	11,114	1,356	12,470
Additions	644	-	644
Disposals	-	-	-
Closing balance, 31 December 2012	**11,758**	**1,356**	**13,114**
Opening balance, 1 January 2013	11,758	1,356	13,114
Additions	933	-	933
Disposals	-	-	-
Closing balance, 31 December 2013	**12,691**	**1,356**	**14,047**
Net book value			
1 January 2012	1,889	-	1,889
31 December 2012	2,906	-	2,906
31 December 2013	2,635	-	2,635

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

13. Other assets

	31 December 2013	31 December 2012
Transfer cheques	106,522	148,955
Credit card payments	49,052	9,595
Collateral for leveraged operations(1)	47,248	21,542
Assets held for resale	8,208	6,166
Collateral for derivatives	4,443	10,466
Prepaid tax	4,217	-
Advances given	3,984	1,639
Prepaid expenses	2,262	5,450
Other	12,254	8,054
Total	**238,190**	**211,867**

(1) Collateral for leveraged operations are composed of the given colleterals for transactions, which take place through Anadolu Yatırım AŞ.

As at 31 December 2013 TL 8,208 (31 December 2012: TL 6,166) of the other assets is comprised of foreclosed real estates acquired by the Bank against its impaired receivables.

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

14. Deposits

Deposits from banks

	31 December 2013				31 December 2012			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	TL	FC	TL	FC	TL	FC	TL	FC
Demand	316	58,482	-	-	12	96	-	-
Time	39,040	225,690	8.00-9.00	0.42-2.25	22,166	186,835	7.50-8.25	0.59-2.45
Total	**39,356**	**284,172**			**22,178**	**186,931**		

Deposits from customers

	31 December 2013				31 December 2012			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	TL	FC	TL	FC	TL	FC	TL	FC
Saving:								
Demand	50,388	431,300	-	-	35,795	368,332	-	-
Time	2,311,031	782,556	4.25-10.25	0.25-4.00	1,733,107	743,502	5.00-11.25	0.25-4.50
	2,361,419	**1,213,856**			**1,768,902**	**1,111,834**		
Commercial and other deposits:								
Demand	226,285	94,935	-	-	222,626	52,777	-	-
Time	839,114	868,608	4.00-10.00	0.25-4.25	666,732	671,015	3.00-11.00	0.25-5.25
	1,065,399	**963,543**			**889,358**	**723,792**		
Total	**3,426,818**	**2,177,399**			**2,658,260**	**1,835,626**		

Other money market deposits

	31 December 2013				31 December 2012			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	TL	FC	TL	FC	TL	FC	TL	FC
Obligations under repurchase agreements:								
Due to banks	65,219	746,621	4.08-7.02	0.29-1.60	36,308	556,502	4.66-5.25	0.50-1.77
Total	**65,219**	**746,621**			**36,308**	**556,502**		

As at 31 December 2013, carrying values of underlying financial assets at fair value through profit or loss collateralised against repurchase agreements are amounted to 79,684 TL (31 December 2012: TL 37,827), carrying values of underlying financial assets classified as held-to-maturity investments collateralised against repurchase agreements are amounted to TL 125,697 (31 December 2012: TL 71,557) and carrying values of underlying financial assets classified as available-for-sale investments collateralised against repurchase agreements are amounted to TL 712,060 (31 December 2012: 649,441).

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

15. Funds borrowed

	31 December 2013				31 December 2012			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	TL	FC	TL	FC	TL	FC	TL	FC
Short-term(*)	120,708	499,929	4.75-10.50	1.32-3.62	77,111	252,099	5.75-8.75	1.72-3.98
Medium/long term(*)	5,176	42,619	5.00-9.25	1.00-3.40	1,497	38,139	7.75-9.25	0.99-4.01
Total	**125,884**	**542,548**			**78,608**	**290,238**		

(*) Borrowings are presented considering their original maturities.

Repayment plans of medium/long term borrowings are as follows:

	31 December 2013	31 December 2012
2013	-	334,294
2014	622,817	1,440
2015	45,615	33,112
Total	**668,432**	**368,846**

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

16. Other liabilities and provisions

	31 December 2013	**31 December 2012**
Transfer orders	147,517	209,816
Collections from guarantee cheques	53,063	47,378
Collateral for leveraged operations	47,355	21,618
Payables due from credit cards	29,683	31,374
Other various provisions	27,402	17,359
Taxes other than on income	15,535	13,516
Reserve for employee severance indemnity and unused vacation accruals	12,075	12,006
Employee severance indemnity	5,194	4,963
- Unused vacation pay liability	*6,881*	*7,043*
- Factoring payables	*177*	*238*
Other	17,407	21,593
Total	**350,214**	**374,898**

The movement of employee severance indemnity is as follows:

	31 December 2013	**31 December 2012**
Net liability at the beginning of the year	4,963	2,608
Benefit paid directly	(2,323)	(2,813)
Total expense recognised in the income statement	2,554	5,168
Total	**5,194**	**4,963**

IAS 19 (2011) requires that all actuarial gains and losses to be recognised immediately in other comprehensive income in accordance with the change in IAS 19 (2011).

The Group recognised all actuarial gains and losses under profit or loss accounts for the year ended 31 December 2013 due to immaterial effect of the related amount. The Group did not restate its consolidated financial statements as at and for the year ended 31 December 2012.

The movement of unused vacation pay liability is as follows:

	31 December 2013	**31 December 2012**
Total provision at the beginning of the year	7,043	5,858
Paid during the year	(952)	(380)
Total expense recognised in the income statement	790	1,565
Total	**6,881**	**7,043**

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

17. Income taxes payable

Major components of income tax expense:

	2013	2012
Current income taxes:		
Current income tax charge	(26,473)	(37,658)
Deferred taxes:		
Relating to origination and reversal of temporary differences	(1,346)	(3,819)
Income tax expense	**(27,819)**	**(41,477)**

The current income tax charges and prepaid taxes are detailed below:

	31 December 2013	31 December 2012
Current income tax charge	26,473	37,658
Advance taxes	(26,156)	(29,915)
Income taxes payable	**317**	**7,743**

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying consolidated financial statements for the estimated charge based on the Group's results for the years and periods. Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

As at 31 December 2013 and 2012, deferred tax assets and liabilities are as follows:

	31 December 2013 Deferred tax Assets/ (Liabilities)		31 December 2012 Deferred tax Assets/ (Liabilities)	
	Asset	**Liability**	**Asset**	**Liability**
Valuation difference of derivative financial instruments	-	(6,250)	-	(1,717)
Differences in the measurement of the debt securities	-	(2,904)	-	(3,194)
Personnel bonuses	2,368	-	1,995	-
Reserve for employee severance indemnity and liability for unused vacation	2,324	-	2,367	-
Transfer from AFS portfolio	12,410	-	-	(37,598)
Specific provision expenses	4,525	-	3,746	-
Other	1,838	(446)	830	(311)
Total deferred tax assets/(liabilities)	**23,465**	**(9,600)**	**8,938**	**(42,820)**
Offsetting	(9,600)	9,600	(8,938)	8,938
Deferred tax assets/(liabilities)	**13,865**	**-**	**-**	**(33,882)**

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

17. Income taxes payable *(continued)*

	31 December 2013	31 December 2012
Deferred tax asset / (liability) at 1 January	**(33,882)**	**9,826**
Deferred tax recognised in income statement	(1,346)	(3,819)
Deferred tax recognised in equity	50,008	(38,272)
Foreign currency difference	717	(682)
Prior period corporate tax that was paid in the current period	(1,632)	(935)
Deferred tax asset / (liability) at 31 December	**13,865**	**(33,882)**

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

	31 December 2013	31 December 2012
Deferred tax assets	13,865	3,865
Deferred tax liabilities	-	(37,747)
Total	**13,865**	**(33,882)**

A reconciliation of income tax expense applicable to profit from operating activities before income taxes at the statutory income tax rate to income tax expense at the Group's effective income tax rate for the year ended 31 December 2013 and 2012 were as follows:

	2013	2012
Net profit from ordinary activities before income taxes and non-controlling interest	**137,930**	**217,250**
Taxes on income per statutory tax rate	27,586	43,450
Disallowable expenses	1,191	2,002
Effect of income not subject to tax	(958)	(3,975)
Income tax expense	**27,819**	**41,477**

For the year ended 31 December 2013, the effective tax rate is 20.2% (2012:19.1%).

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

18. Equity

Share capital

	31 December 2013	31 December 2012
Number of common shares, TL 0.01 (in full TL), par value Authorised, issued and outstanding 60,000 millions	600,000	600,000

As at 31 December 2013 and 2012, the authorised nominal share capital of the Bank amounted to TL 600,000.

As at 31 December 2013 and 2012, the composition of shareholders and their respective percentage of ownership can be summarised as follows:

	31 December 2013		31 December 2012	
	Amount	**%**	**Amount**	**%**
Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ	419,867	69.98	419,823	69.98
Mehmet Rüştü Başaran	163,895	27.32	163,895	27.32
Other shareholders	16,238	2.70	16,282	2.70
Nominal value	**600,000**	**100.00**	**600,000**	**100.00**
Restatement effect per *IAS 29*	2,619		2,619	
Total	**602,619**		**602,619**	

Foreign currency translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

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.

During 2006, the Bank has reclassified the securities from available-for-sale financial assets to held-to-maturity investment securities in accordance with the decision of Board of Directors. The loss of TL 12,931 net off deferred taxes at the transfer date that has been recognised directly in equity is amortised under profit or loss over the remaining life of the transferred securities using the effective interest method.

As per the legislation on capital adequacy (Basel II) effective from 1 July 2012, the risk weighting of securities in foreign currencies issued by the Turkish Treasury increased from 0% to 100%. Accordingly, in the current period, the Bank transferred, for the purpose of selling, a part of its Eurobonds with a total face value of USD 238,000,000 (full) from its held-to-maturity portfolio as per the exception granted by IAS 39 for the sale/transfer of securities originally classified under the securities held-to-maturity in cases where the capital requirement increases due to legal legislation. As at 31 December 2013, such gains/(losses) recognised under equity, after deduction of related tax effect, amounted to TL (49,404) (31 December 2012: 150,397).

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

18. Equity *(continued)*

Other reserves and legal reserves

Other reserves consist of the legal reserves which are amounted to TL 42,936 and gain on sales of assets which are amounted to TL 60 (31 December 2012: TL 34,123 and TL 60; respectively).

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.

Non-controlling interests

As at 31 December 2013, net non-controlling interest amounts to TL 2,140 (31 December 2012: TL 2,148).

19. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Group is controlled by Habaş Sınai ve Tıbbi Gazlar İstihsal Endüstrisi AŞ which owns 69.98% (31 December 2012: 69.98%) of ordinary shares, and included in Habaş Group of companies. For the purpose of these consolidated financial statements, shareholders and Habaş Group companies are referred to as related parties. Related parties also include individuals that are principal owners and management and members of the Group's Board of Directors and their families. In the course of conducting its banking business, the Group conducted various business transactions with related parties on commercial terms.

The following significant balances exist and transactions have been entered into with related parties:

Outstanding balances

	31 December 2013	31 December 2012
Cash loans	18,742	9,951
Non-cash loans	95,382	103,497
Deposits taken	105,496	102,021

Transactions

	2013	2012
Interest income	1,369	2,818
Interest expense	1,005	1,421
Other operating income	834	1,051

Directors' remuneration

As at and for the year ended 31 December 2013, the key management and the members of the Board of Directors received remuneration and fees amounted to TL 13,343 (31 December 2012: TL 12,426).

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

20. Interest income / expenses

	2013	2012
Interest on loans and receivables	604,797	698,209
Interest on marketable securities	67,022	112,067
Financial assets at FVTPL	*15,121*	*76,834*
Available for sale investments	*42,688*	*6,761*
Held to maturity	*9,213*	*28,472*
Interest on deposits with banks and other financial institutions	472	1,521
Interest on other money market placements	10,662	7,278
Other interest income	5,007	4,078
Total interest income	**687,960**	**823,153**

	2013	2012
Interest on deposits	268,286	304,968
Interest on funds borrowed	14,728	14,084
Interest on other money market deposits	13,885	58,433
Other interest expenses	406	102
Total interest expenses	**297,305**	**377,587**

21. Fee and commission income / expenses

	2013	2012
From non cash loans	11,855	12,824
Other	60,337	57,567
From cash loans	*14,832*	*14,829*
From individual loan application	*140*	*530*
From fund commissions	*1,064*	*1,376*
Other	*44,301*	*40,832*
Fee and commission income	**72,192**	**70,391**

	2013	2012
Credit card commissions	8,051	8,776
ATM commissions	1,378	1,715
Non-cash loan commissions	48	92
Other	4,634	3,528
Fee and commission expenses	**14,111**	**14,111**

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

22. Other operating income / expenses

Other operating income

	2013	2012
Trading income from marketable securities	68,771	29,203
Trading gains from derivatives	80,752	51,393
Other income	11,099	10,185
Other operating income	**160,622**	**90,781**

Other operating expenses

	2013	2012
Salaries and employee benefits (Note 23)	184,849	159,626
Foreign exchange losses, net	138,389	57,403
Provision for possible loan losses, net of recoveries	56,327	86,204
Depreciation and amortisation	8,364	6,916
Taxes other than on income	14,596	11,528
Other expenses (Note 24)	68,903	53,700
Other operating expenses	**471,428**	**375,377**

23. Salaries and employee benefits

	2013	2012
Staff costs:		
Wages and salaries	132,117	110,346
Cost of defined contribution plan (employer's share of social security premiums)	19,407	15,855
Other fringe benefits	29,981	26,692
Provision for employee termination benefits and unused vacation accruals	3,344	6,733
Total	**184,849**	**159,626**

The average number of employees during the year is:

	2013	2012
The Bank	2,111	2,024
Subsidiaries	108	92
Total	**2,219**	**2,116**

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

24. Other expenses

	2013	2012
Operating lease charges	20,001	16,466
Communication expenses	7,034	5,974
Transportation expenses	4,845	4,275
Saving deposit insurance fund premium	3,943	2,086
Cleaning service expenses	3,483	2,629
Energy costs	3,162	2,770
Hosting cost	2,970	2,492
Expertise expenses	2,304	1,718
Maintenance expenses	2,059	1,838
Office supplies	1,619	1,309
Other provisions	1,160	308
Credit card service expenses	1,089	477
BRSA participation fee	867	685
Advertising expenses	817	734
Chartered accountants	525	652
POS service expenses	513	526
Other	12,512	8,761
Total	**68,903**	**53,700**

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

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 consolidated financial statements including:

	31 December 2013	31 December 2012
Letters of guarantee	1,438,485	1,180,978
Letters of credit	250,204	294,490
Acceptance credits	5,890	8,549
Other guarantees	123,838	164,582
Total non-cash loans	**1,818,417**	**1,648,599**
Credit card limit commitments	275,547	243,429
Other commitments	453,797	350,745
Total	**2,547,761**	**2,242,773**

Litigations

A lawsuit was filed against the Bank by a correspondent bank during the previous reporting periods claiming the collection of US 14,750,000 (full) plus of any accrued interest thereon since the legal proceedings were instituted. The Bank's lawyers have advised that they do not consider that the suit has merit and they have contested it. No provision has been made in the financial statements as the Group's management does not consider that there would be any probable loss.

USD 14,750,000 (full) that was transferred to the account of a customer of the Bank by Citibank N.A. was paid to the related company by the Bank. Citibank N.A. claimed this transfer back, however since the money was paid to the related company and could not be returned, a lawsuit was filed against the Bank. The insurance companies, those paid USD 11,500,000 (full) of the total amount as the indemnity, were accepted to the case by the court as being intervening party. For the remaining part of the amount (USD 3,250,000) (full) was prosecuted by Citibank N.A. at the same lawsuit. As of balance sheet date, the court has rejected the demand of USD 3,250,000 (full) with Citibank N.A. and USD 11,500,000 (full) with the insurance companies, which are involved in the dispute as a result of the hearing on 20 December 2011. The issue has moved to Supreme Court by the complainants and Supreme Court decided in countenance of Bank 2013/22710 at 12 December 2013 decision number.

26. Financial risk management

(a) Introduction and overview

This note presents information about the Group's exposure to each of the below risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors monitors the effectiveness of the risk management system through the auditing committee. Consequently, the Risk Management Department, which carries out the risk management activities and works independently from executive activities, report directly to the Board of Directors.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The risks are measured with the internationally accepted methodologies in compliance with local and international regulations, the Bank's structure, policy and procedures. They are effectively managed and assessed in a continuously growing manner. At the same time, studies for compliance with the international banking applications, such as Basel II, are carried out.

In order to ensure the compliance with the rules altered pursuant to the Articles 23, 29 to 31 of the Banking Law No. 5411 and the Articles 36 to 42 of Regulation on Internal Systems within the Banks, dated 1 November 2006, the Bank revised the current written policies and implementation procedures regarding management of each risk encountered in its activities in February 2007.

Auditing Committee: The Auditing Committee consists of two members of the Board of Directors who do not have any executive functions. The Auditing Committee, established to assist the Board of Directors in its auditing and supervising activities, is responsible for:

- The supervision of the efficiency and effectiveness of the internal control, risk management and internal audit systems of the Bank, functioning of these systems as well as accounting and reporting systems within the framework of related procedures, and the integrity of information generated;
- The preliminary assessment on the selection process of independent audit firms and the systematic monitoring of the activities of these companies;
- The maintenance and coordination of the internal audit functions of corporations subject to consolidated internal audits.

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

26. Financial risk management *(continued)*

(b) Credit risk

Credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Credit risk is defined as the probability of loss if the customer or counterparty fails to meet its obligations partially or completely on the terms set. Credit risk is considered in depth covering the counterparty risks arising from not only from future or option contracts but also credit risks originating from the transactions in Banking Law.

Exposure to credit risk

	Loans and advances to customers		**Other assets**	
	2013	**2012**	**2013**	**2012**
Impaired	176,747	175,939	1,113	1,116
Individual allowance for impairment	(115,014)	(123,250)	1,113	1,116
Carrying amount	**61,733**	**52,689**	**-**	**-**
Past due but not impaired	237,511	190,110		-
Carrying amount	**237,511**	**190,110**		
Neither past due nor impaired	5,964,608	4,868,408		-
Loans with renegotiated terms	-	-	-	-
Carrying amount	**5,964,608**	**4,868,408**		**-**
Collective allowance for impairment	(66,161)	(52,689)	-	-
Total carrying amount	**6,197,691**	**5,058,518**	**-**	**-**

Impaired loans and receivables

Impaired loans and receivables are loans and receivables for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. These loans are graded 3 to 5 in the Group's internal credit risk grading system.

Past due but not impaired loans

Loans and receivables where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Group.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to temporary deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

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

26. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Write-off policy

The Group writes off a loan / security balance (and any related allowances for impairment losses) when Group determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure and the completion of the legal procedure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

Collateral policy

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2013 or 2012.

The breakdown of performing cash and non-cash loans and advances to customers by type of collateral is as follows:

Cash loans	**31 December 2013**	**31 December 2012**
Secured loans:		
Secured by cash collateral	71,415	61,318
Secured by mortgages	921,269	954,253
Secured by government institutions or government securities	-	330
Guarantees issued by financial institutions	26,436	489,720
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	3,288,709	2,691,219
Unsecured loans	1,894,290	861,678
Total performing loans and receivables	**6,202,119**	**5,058,518**

Non-cash loans	**31 December 2013**	**31 December 2012**
Secured loans:		
Secured by mortgages	36,337	36,991
Guarantees issued by financial institutions	59,157	44,478
Secured by cash collateral	311	266
Secured by government institutions or government securities	359	33
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	1,105,157	1,064,026
Unsecured loans	617,096	502,805
Total non-cash loans	**1,818,417**	**1,648,599**

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

26. Financial risk management *(continued)*

(b) Credit risk *(continued)*

An estimate of the fair value of collaterals held against non-performing loans and receivables is as follows:

	31 December 2013	31 December 2012
Mortgages	25,375	26,056
Pledge on automobile	2,669	3,340
Corporate and personal guarantees	18,935	20,998
Total	**46,979**	**50,394**

Sectoral and geographical concentration of impaired loans

The Bank and its subsidiaries monitor concentrations of credit risk by sector and by geographic location. An analysis of concentrations of non-performing loans is shown below:

	31 December 2013	31 December 2012
Consumer loans	39,442	38,321
Metal and metal products	36,743	38,759
Food	15,441	13,799
Construction	15,198	11,793
Service sector	4,845	5,970
Agriculture and stockbreeding	4,834	2,921
Durable consumption	4,350	1,400
Textile	3,627	9,505
Others	53,380	54,587
Total non-performing loans and receivables	**177,860**	**177,055**

	31 December 2013	31 December 2012
Turkey	177,721	176,916
United States of America	139	139
Total non-performing loans and receivables	**177,860**	**177,055**

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

26. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Sectoral break down of cash and non-cash loans

	31 December 2013				31 December 2012			
	Cash	Cash (%)	Non cash	Non cash (%)	Cash	Cash (%)	Non-cash	Non-cash (%)
Agriculture	**381,590**	**6.16**	**28,786**	**1.58**	**312,289**	**6.17**	**25,984**	**1.58**
Farming and stockbreeding	*357,928*	*5.78*	*24,922*	*1.37*	*288,056*	*5.69*	*22,816*	*1.38*
Forestry	*18,271*	*0.29*	*3,807*	*0.21*	*18,121*	*0.36*	*3,078*	*0.19*
Fishing	*5,391*	*0.09*	*57*	*0.00*	*6,112*	*0.12*	*90*	*0.01*
Industry	**2,100,454**	**33.89**	**639,473**	**35.17**	**1,624,467**	**32.11**	**539,084**	**32.70**
Mining and quarrying	*54,046*	*0.87*	*16,471*	*0.91*	*44,607*	*0.88*	*5,036*	*0.31*
Manufacturing	*2,017,661*	*32.56*	*617,883*	*33.98*	*1,553,918*	*30.72*	*516,728*	*31.34*
Electricity, gas, water	*28,747*	*0.46*	*5,119*	*0.28*	*25,942*	*0.51*	*17,320*	*1.05*
Construction	**525,322**	**8.48**	**340,417**	**18.72**	**462,932**	**9.15**	**349,097**	**21.18**
Services	**2,387,022**	**38.52**	**802,126**	**44.11**	**1,814,750**	**35.88**	**717,948**	**43.55**
Wholesale and retail trade	*1,222,346*	*19.73*	*276,850*	*15.22*	*801,594*	*15.85*	*286,693*	*17.39*
Hotel and restaurant services	*43,585*	*0.70*	*11,703*	*0.64*	*35,248*	*0.70*	*5,901*	*0.35*
Transportation and communication	*158,804*	*2.56*	*37,527*	*2.06*	*151,377*	*2.99*	*58,843*	*3.57*
Financial institution	*722,856*	*11.67*	*368,210*	*20.25*	*630,658*	*12.46*	*279,815*	*16.97*
Real estate and rent services	*22,560*	*0.36*	*257*	*0.01*	*6,919*	*0.14*	*251*	*0.02*
Professional services	*118,461*	*1.91*	*65,575*	*3.61*	*113,669*	*2.25*	*58,786*	*3.57*
Educational services	*8,379*	*0.14*	*3,531*	*0.19*	*7,691*	*0.15*	*2,787*	*0.17*
Health and social services	*90,031*	*1.45*	*38,473*	*2.12*	*67,594*	*1.34*	*24,872*	*1.51*
Consumer loans	**553,760**	**8.93**	**-**	**-**	**652,392**	**12.90**	**-**	**-**
Credit card	**128,497**	**2.07**	**-**	**-**	**108,188**	**2.14**	**-**	**-**
Others	**121,046**	**1.95**	**7,615**	**0.42**	**83,500**	**1.65**	**16,486**	**1.00**
Total	**6,197,691**	**100.00**	**1,818,417**	**100.00**	**5,058,518**	**100.00**	**1,648,599**	**100.00**

26. Financial risk management *(continued)*

(c) Liquidity risk

Liquidity risk is the risk that an entity will be unable to meet its funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to become unavailable.

Management of liquidity risk

The Bank management is very conservative on maintaining an acceptable level of immediately available funds on hand both in TL as well as in foreign currencies. The level that the Bank management feels comfortable is around 10% of the assets size. The Treasury department is responsible for keeping either cash on hand or liquid assets that could be exchanged into cash immediately by making use of instruments in financial markets in consideration of cash outflows within next two weeks.

To mitigate the liquidity risk, the Group diversifies funding sources and assets are managed with liquidity in mind, maintaining balance of cash and cash equivalents.

Within the risk management framework, the Treasury Department manages the liquidity position of the Bank and the liquidity ratios are monitored closely by the top management of the Bank. In order to manage the liquidity risk, Treasury Department receives information from other business departments and regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Treasury Department maintains a portfolio of short-term liquid assets, short-term loans and placements to domestic and foreign banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored by the Treasury Department prepared daily reports cover the liquidity position of both the Bank and its subsidiaries. All liquidity policies and procedures are subject to review and approval of ALCO.

Exposure to liquidity risk

The calculation method used to measure the banks compliance with the liquidity limit is set by the BRSA. In November 2006, the BRSA issued a new communiqué on the measurement of liquidity adequacy of the banks. This new legislation requires the banks to meet 80% liquidity ratio of foreign currency assets/liabilities and 100% liquidity ratio of total assets/liabilities based on arithmetic average computations on a weekly and monthly basis effective from 1 June 2007.

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

26. Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

Residual contractual maturities of monetary liabilities

31 December 2013	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Deposits from banks	323,528	335,357	44,150	72,569	127,173	91,465	-	-
Deposits from customers	5,604,217	6,084,596	804,046	224,750	3,577,400	528,139	547,670	402,591
Obligations under repurchase agreements	811,840	812973	-	65,238	104,605	635,230	7,900	-
Funds borrowed	668,432	674,968	-	91,498	14,672	506,666	62,132	-
Total	**7,408,017**	**7,907,894**	**848,196**	**454,055**	**3,823,850**	**1,761,500**	**617,702**	**402,591**

31 December 2012	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Deposits from banks	209,109	209,646	108	7,984	123,678	77,876	-	-
Deposits from customers	4,493,886	4,544,617	679,530	140,546	2,973,887	335,974	283,618	131,062
Obligations under repurchase agreements	592,810	593,345	-	43,789	8,342	541,214	-	-
Funds borrowed	369,084	372,454	-	60,341	82,525	146,373	83,215	-
Total	**5,664,889**	**5,720,062**	**679,638**	**252,660**	**3,188,432**	**1,101,437**	**366,833**	**131,062**

The previous table shows the undiscounted cash flows on the Group's monetary liabilities on the basis of their earliest possible contractual maturity. The Group's expected cash flows on these instruments vary significantly from this analysis.

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

26. Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

The table below analyses contractual maturities of derivative transactions:

	31 December 2013								
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Derivatives financial instruments held for trading purpose:									
Forward purchase contract	5,350	3,340	909,870	876,429	19,509	13,644	288	-	-
Forward sale contract	-	-	876,256	842,897	19,477	13,595	287	-	-
Currency swap purchase	70,320	29,896	2,870,692	2,129,231	45,483	161,392	459,226	75,360	-
Currency swap sale	-	-	2,864,760	2,132,844	43,923	158,572	455,932	73,489	-
Credit default swap sale	-	-	-	-	-	-	-	-	-
Interest rate swap purchase	-	-	-	-	-	-	-	-	-
Interest rate swap sale	-	-	-	-	-	-	-	-	-
Put option purchase	-	384	333,186	169,691	108,919	11,221	43,355	-	-
Put option sale	-	-	337,239	173,360	108,919	11,221	43,739	-	-
Total	**75,670**	**33,620**	**8,192,003**	**6,324,452**	**346,230**	**369,645**	**1,002,827**	**148,849**	**-**

	31 December 2012								
	Fair value assets	Fair value liabilities	Notional amount in Turkish Lira equivalent	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Derivatives financial instruments held for trading purpose:									
Forward purchase contract	63	-	348,872	340,973	5,189	1,374	1,336	-	-
Forward sale contract	-	172	340,832	332,944	5,183	1,372	1,333	-	-
Currency swap purchase	18,077	-	1,352,797	1,052,086	53,939	100,645	65,425	80,702	-
Currency swap sale	-	6,453	1,351,106	1,050,817	53,550	97,836	65,347	83,556	-
Credit default swap sale	-	-	-	-	-	-	-	-	-
Interest rate swap purchase	-	-	3,484	-	-	3,484	-	-	-
Interest rate swap sale	-	-	3,484	-	-	3,484	-	-	-
Put option purchase	89	-	654,301	474,560	92,384	83,529	3,828	-	-
Put option sale	-	-	661,412	481,671	92,384	83,529	3,828	-	-
Total	**18,229**	**6,625**	**4,716,288**	**3,733,051**	**302,629**	**375,253**	**141,097**	**164,258**	**-**

Non-cash loans

31 December 2013	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	Total
Non-cash loans	-	966,127	82,890	374,475	200,932	193,993	**1,818,417**

31 December 2012	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	Total
Non-cash loans	-	762,530	89,734	328,968	185,304	282,063	**1,648,599**

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

26. Financial risk management *(continued)*

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Management of market risk

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury Department, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Exposure to market risk – trading portfolios

The market risk arising from trading portfolio is monitored, measured and reported using Standardised Approach according to the legal legislation. The monthly market risk report and the weekly currency risk reports prepared using Standardised Approach are reported to BRSA.

The principal tool used to measure and control market risk exposure within the Bank's trading portfolios is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99 percent confidence level and assumes a 1-day holding period. The VaR model used is based mainly on Monte Carlo simulation. Taking account of market data from the previous 252 days, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios and stress tests for market price movements. The VaR model used is based on and Monte Carlo simulation with using with Nelson Siegel method for yield curve and GARCH method for volatility. The VaR analysis of the Bank are not reported outside and used only by the top management.

The consolidated value at market risk as of 31 December 2013 calculated as per the statutory consolidated financial statements prepared for the BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 28337 dated 28 June 2012 based on the Basel II requirements effective from 1 July 2012 is as follows:

	31 December 2013			**31 December 2012**		
	Average	**Highest**	**Lowest**	**Average**	**Highest**	**Lowest**
Interest rates risk	49,986	63,608	41,148	26,098	42,043	11,741
Common share risk	1,016	1,427	34	177	235	105
Currency risk	7,527	14,207	4,336	4,081	5,624	2,960
Option risk	3,476	4,952	2,944	1,463	5,852	-
Total value at risk (12.5 times)	**775,063**	**960,050**	**610,200**	**397,732**	**598,776**	**185,844**

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

26. Financial risk management *(continued)*

(d) Market risk *(continued)*

Exposure to interest rate risk – non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities. A summary of the Group's interest rate gap position is as follows:

31 December 2013	**Less than one month**	**1-3 months**	**3-12 months**	**1 -5 years**	**Over 5 year**	**Non-Interest**	**Carrying amount**
Cash and balances with the Central Bank	-	-	-	-	-	859,118	**859,118**
Deposits with banks and other financial institutions	116,364	-	6,200	-	-	218,272	**340,836**
Receivables from reverse repurchase transactions	150,032	-	-	-	-	-	**150,032**
Trading assets (including derivative assets)	136,567	10,408	6,602	3,814	31,390	26,644	**215,425**
Available for sale investments	-	32,183	3,986	5,090	714,682	-	**755,941**
Loans and receivables	2,807,424	647,893	1,057,695	1,469,469	210,819	4,391	**6,197,691**
Investment securities	33,493	13,464	28,709	87,280	54,716	-	**217,662**
Other assets	-	62	-	-	244	281,313	**281,619**
Total assets	**3,243,880**	**704,010**	**1,103,192**	**1,565,653**	**1,011,851**	**1,389,738**	**9,018,324**
Deposits from banks	159,779	112,582	7,017	-	-	44,150	**323,528**
Deposits from customers	3,292,931	1,319,298	184,755	391,794	-	415,439	**5,604,217**
Obligations under repurchase agreements and interbank money market borrowings	386,839	254,702	152,083	18,216	-	-	**811,840**
Funds borrowed	123,136	106,659	393,017	45,620	-	-	**668,432**
Other liabilities, provisions and equity	24,418	520	5,071	-	-	1,580,298	**1,610,307**
Total liabilities	**3,987,103**	**1,793,761**	**741,943**	**455,630**	**-**	**2,039,887**	**9,018,324**
Net	**(743,223)**	**(1,089,751)**	**361,249**	**1,110,023**	**1,011,851**	**(650,149)**	**-**

31 December 2012	**Less than one month**	**1-3 months**	**3-12 months**	**1 -5 years**	**Over 5 year**	**Non-Interest**	**Carrying amount**
Cash and balances with the Central Bank	-	-	-	-	-	661,375	**661,375**
Deposits with banks and other financial institutions	250,254	244	-	-	-	21,589	**272,087**
Receivables from reverse repurchase transactions	80,014	-	-	-	-	-	**80,014**
Trading assets (including derivative assets)	14,256	103,425	121	31,489	22,136	282	**171,709**
Available for sale investments	-	11,648	-	-	689,032	-	**700,680**
Loans and receivables	1,930,389	578,217	1,309,347	961,573	278,347	645	**5,058,518**
Investment securities	2,348	27,897	65,890	13,808	65,255	-	**175,198**
Other assets	-	86	-	-	-	242,646	**242,732**
Total assets	**2,277,261**	**721,517**	**1,375,358**	**1,006,870**	**1,054,770**	**926,537**	**7,362,313**
Deposits from banks	157,798	49,054	2,149	-	-	108	**209,109**
Deposits from customers	2,735,309	955,590	254,218	200,306	5	348,458	**4,493,886**
Obligations under repurchase agreements and interbank money market borrowings	366,644	226,166	-	-	-	-	**592,810**
Funds borrowed	102,549	101,665	130,080	34,552	-	-	**368,846**
Other liabilities, provisions and equity	6,076	2,145	-	64	-	1,689,377	**1,697,662**
Total liabilities	**3,368,376**	**1,334,620**	**386,447**	**234,922**	**5**	**2,037,943**	**7,362,313**
Net	**(1,091,115)**	**(613,103)**	**988,911**	**771,948**	**1,054,765**	**(1,111,406)**	**-**

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

26. Financial risk management *(continued)*

(d) Market risk *(continued)*

The following table indicates the effective interest rates by major currencies for the major components of the consolidated statement of financial position for 2013 and 2012:

31 December 2013	**Euro %**	**USD %**	**JPY %**	**TL %**
Cash and balances with Central Bank	-	-	-	-
Loans and advances to banks	0.41	0.32	-	5.40
Financial assets at fair value through profit or loss	11.17	0.85	-	8.04
Money market placements	-	-	-	7.74
Available for sale investments	1.00	5.68	-	-
Loans and advances to customers	3.88	4.31	4.60	13.83
Investment securities	1.00	0.73	-	15.01
Deposits from banks	1.71	1.09	-	6.32
Deposits from customers	2.95	3.01	-	9.35
Obligations under repurchase agreements	0.00	1.04	-	4.47
Funds borrowed	1.73	1.49	-	7.14

31 December 2012	**Euro %**	**USD %**	**JPY %**	**TL %**
Cash and balances with Central Bank	-	-	-	-
Loans and advances to banks	0.44	0.47	-	5,36
Financial assets at fair value through profit or loss	15.98	4.35	-	6.03
Money market placements	-	-	-	-
Available for sale investments	0.87	7.04	-	-
Loans and advances to customers	3.36	4.82	4.60	14.66
Investment securities	2.11	2.75	-	14.99
Deposits from banks	2.07	1.33	-	8.18
Deposits from customers	2.91	2.96	-	8.37
Obligations under repurchase agreements	0.43	0.56	-	4.75
Funds borrowed	2.32	2.81	-	7.72

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

26. Financial risk management *(continued)*

(d) Market risk *(continued)*

Interest rate sensitivity of the trading and non-trading portfolios

Interest rate risk in the banking book is evaluated considering the repricing risk, yield curve risk, basis risk and optionality, measured in compliance with the international standards and managed by risk mitigation through limits and hedging.

The interest rate sensitivity of assets, liabilities and off balance-sheet items are evaluated at the weekly Asset-Liability Committee meetings considering also the market developments.

The measurement process of interest rate risk resulting from banking book is established and managed by the Bank on a bank-only basis to include the interest rate positions defined as banking book and to consider the relevant repricing and maturity data.

Duration gaps, gaps by maturity buckets and sensitivity analysis are used in monitoring of repricing risk resulting from maturity mismatch. The duration gap and sensitivity analysis are carried out every two weeks period.

In the duration gap analysis, the present values of interest-rate-sensitive asset and liability items are calculated using yield curves developed from market interest rates. In case of instruments with no maturities assigned, the maturity is determined as per interest rate fixing periods and customer behaviours. Such results are supported by sensitivity and scenario analysis applied periodically for possible instabilities in the markets.

The interest rate risk resulted from banking book is measured legally as per the "Regulation on Measurement and Evaluation of Interest Rate Risk Resulted from Banking Book as per Standard Shock Method" published in the Official Gazette no. 28034 dated 23 August 2011, and the legal limit as per this measurement is monitored and reported monthly. The capital level is maintained considering the interest rate risk resulted from the banking book.

The interest rate risk on the interest-rate-sensitive financial instruments of the trading portfolio is evaluated as part of the market risk.

As of 31 December 2013, the economic value differences resulted from interest rate instabilities calculated on a bank-only basis for the banking book according to the relevant legislation as per the standard shock method are as follows;

Type of currency	Shocks applied (+/- basis points)	Gains/losses	Gains/equity-Losses/equity
TL	(+) 500 bps	(106,990)	9.69%
TL	(-) 400 bps	199,750	18.09%
USD	(+) 200 bps	19,880	1.80%
USD	(-) 200 bps	(55,710)	5.04%
EUR	(+) 200 bps	9,960	0.90%
EUR	(-) 200 bps	(14,610)	1.32%
Total (of negative shocks)		**129,430**	**11.72%**
Total (of positive shocks)		**(77,150)**	**6.99%**

26. Financial risk management *(continued)*

(d) Market risk *(continued)*

Currency risk

Currency risk arises when an entity's equity is under threat as a result of exchange rate fluctuations. Naturally, a bank doing business in multiple currencies would be exposed to currency risk unless these risks are properly hedged. Any sizeable transaction that would be causing currency risk is immediately hedged with a banking counterpart, or else smaller transactions are gathered until they form a sizeable amount for hedging.

Foreign exchange gains and losses arising from foreign currency transactions are recorded at transaction dates. At the end of the periods, foreign currency assets and liabilities evaluated with the Bank's spot purchase rates and the differences are recorded as foreign exchange gain or loss in profit or loss except for foreign exchange gain/loss arising from the conversion of the net investments in subsidiaries in foreign countries into TL.

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limit on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily. The Group's exposure to foreign currency exchange rate risk at 31 December 2013 and 2012, on the basis of the Group's assets and liabilities at carrying amounts, categorised by currency, is shown in the following table.

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

26. Financial risk management *(continued)*

(d) Market risk *(continued)*

Currency risk *(continued)*

As at 31 December 2013	**USD**	**Euro**	**Other currencies**	**Total**
Assets:				
Cash and balances with the Central Bank	191,779	361,386	83,739	636,904
Deposits with banks and other financial institutions	225,701	95,596	14,272	335,569
Receivables from reverse repo transactions	-	-	-	-
Available for sale investments	34,318	717,568	-	751,886
Financial assets at fair value through profit or loss	43,009	10,808	-	53,817
Investment securities	161,992	44,547	-	206,539
Loans and receivables	547,925	1,082,330	62,848	1,693,103
Other assets	7,804	50,597	416	58,817
Total assets	**1,212,528**	**2,362,832**	**161,275**	**3,736,635**
Liabilities:				
Deposits from other banks	150,950	114,243	18,979	284,172
Deposits from customers	1,162,092	977,228	38,079	2,177,399
Other money market deposits	89,720	656,901	-	746,621
Funds borrowed	307,792	234,756	-	542,548
Other liabilities and provisions	7,969	52,502	103	60,574
Total liabilities	**1,718,523**	**2,035,630**	**57,161**	**3,811,314**
Net position on the consolidated statement of financial position	**(505,995)**	**327,202**	**104,114**	**(74,679)**
Off-balance sheet position:				
Net notional amount of derivatives	356,738	(264,431)	(72,260)	20,047
Net position	**(149,257)**	**62,771**	**31,854**	**(54,632)**

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

26. Financial risk management *(continued)*

(d) Market risk *(continued)*

Currency risk *(continued)*

As at 31 December 2012	**USD**	**Euro**	**Other currencies**	**Total**
Assets:				
Cash and balances with the Central Bank	276,357	146,629	95,972	518,958
Deposits with banks and other financial institutions	113,728	132,291	2,161	248,180
Receivables from reverse repo transactions	-	-	-	-
Available for sale investments	689,032	11,648	-	700,680
Financial assets at fair value through profit or loss	64	20,446	-	20,510
Investment securities	26,744	139,451	-	166,195
Loans and receivables	532,647	449,857	75,364	1,057,868
Other assets	27,545	17,022	476	45,043
Total assets	**1,666,117**	**917,344**	**173,973**	**2,757,434**
Liabilities:				
Deposits from other banks	90,443	87,335	-	177,778
Deposits from customers	892,045	912,093	31,488	1,835,626
Other money market deposits	509,306	47,196	-	556,502
Funds borrowed	148,655	141,583	-	290,238
Other liabilities and provisions	27,230	2,920	196	30,346
Total liabilities	**1,667,679**	**1,191,127**	**31,684**	**2,890,490**
Net position on the consolidated statement of financial position	**(1,562)**	**(273,783)**	**75,289**	**(133,056)**
Off-balance sheet position:				
Net notional amount of derivatives	143,795	148,609	(126,915)	165,489
Net position	**142,233**	**(125,174)**	**(51,626)**	**32,433**

For the purposes of the evaluation of the table above, the figures represent the TL equivalent of the related hard currencies.

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

26. Financial risk management *(continued)*

(d) Market risk *(continued)*

Exposure to currency risk sensitivity analysis

A 10 percent devaluation of the TL against the following currencies as at 31 December 2013 and 2012 would have increased/(decreased) equity and profit or loss (without tax effects) by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	31 December 2013		31 December 2012	
	Profit or loss	**Equity(*)**	**Profit or loss**	**Equity(*)**
USD	12,365	6,277	15,392	14,223
EUR	(14,838)	(14,926)	650	(12,517)
Other currencies	3,185	3,185	1,537	1,537
Total, net	**712**	**(5,464)**	**17,579**	**3,243**

(*) Equity effect also includes profit or loss effect of 10% devaluation of TL against related currencies.

Fair value information

The estimated fair values of financial instruments have been determined using available market information by the Bank, and where it exists, appropriate valuation methodologies. However, during financial crisis, judgment is necessary requirement to interpret market data to determine the estimated fair value.

Management has estimated that the fair value of certain financial assets and liabilities are not materially different than their recorded values except for those of loans and advances to customers and security investments. These financial assets and liabilities include loans and advances to banks, obligations under repurchase agreements, deposits from banks, and other short-term assets and liabilities that are of a contractual nature. Management believes that the carrying amount of these particular financial assets and liabilities approximates their fair value, partially due to the fact that it is practice to renegotiate interest rates to reflect current market conditions.

Fair values of held to maturity investment securities and loans and receivables are TL 236,436 and TL 6,185,455 (31 December 2012: TL 184,823 and TL 5,063,459), respectively, whereas the carrying amounts are TL 217,662 and TL 6,197,691 (31 December 2012: TL 175,198 and TL 5,058,518), respectively, in the accompanying consolidated statement of financial position as at 31 December 2013 and 2012. Fair values of held to maturity investments are determined as Level 1and fair values of loans and receivables are determined as Level 2.

Fair values of held-to-maturity investments are derived from market prices or in case of absence of such prices they are derived from prices of other marketable securities, whose interest rate, maturity date and other conditions are similar to securities held.

Fair value of long-term fixed interest rate loans are calculated by discounting cash flows with current market interest rates. For the loans with floating interest rate and short term loans with fixed interest rate, carrying value also represents fair value.

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

26. Financial risk management *(continued)*

(d) Market risk *(continued)*

Classification of fair value measurement

IFRS 7 – Financial Instruments requires the classification of fair value measurements into a fair value hierarchy by reference to the observability and significance of the inputs used in measuring fair value of financial instruments measured at fair value to be disclosed. This classification basically relies on whether the relevant inputs are observable or not. Observable inputs refer to the use of market data obtained from independent sources, whereas unobservable inputs refer to the use of predictions and assumptions about the market made by the Bank. This distinction brings about a fair value measurement classification generally as follows:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3: Fair value measurements using inputs for the assets or liability that are not based on observable market data (unobservable inputs).

Classification requires using observable market data if possible.

	31 December 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss:				
Financial assets at fair value:				
Debt instruments	128,227	-	-	128,227
Equity securities	11,528	-	-	11,528
Derivative financial assets held for trading purpose	-	75,670	-	75,670
Financial assets available for sale				
Debt instruments	755,941	-	-	755,941
Total financial assets	**895,696**	**75,670**	**-**	**971,366**
Financial liabilities at fair value through profit or loss:				
Derivative financial liabilities held for trading purpose	-	33,620	-	33,620
Total financial liabilities	**-**	**33,620**	**-**	**33,620**

	31 December 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss:				
Financial assets at fair value:				
Debt instruments	151,521	-	-	151,521
Equity securities	1,959	-	-	1,959
Derivative financial assets held for trading purpose	-	18,229	-	18,229
Financial assets available for sale				
Debt instruments	700,680	-	-	700,680
Total financial assets	**854,160**	**18,229**	**-**	**872,389**
Financial liabilities at fair value through profit or loss:				
Derivative financial liabilities held for trading purpose	-	6,625	-	6,625
Total financial liabilities	**-**	**6,625**	**-**	**6,625**

26. Financial risk management *(continued)*

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The operational risk items in the Bank are determined in accordance with the definition of operational risk by considering the whole processes, products and departments. The control areas are set for operational risks within the Bank and all operational risks are followed by assigning the risks to these control areas. In this context, appropriate monitoring methodology is developed for each control area that covers all operational risks and control frequencies are determined.

The data and amount of operational losses, the Bank exposed to during its activities is collected and analyzed regularly by Risk Management Department and reported to Board of Directors, Auditing Committee and senior management.

The Group calculated the value at operational risk in accordance with the "Computation of Value of Operational Risk" of the circular "Regulation Regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette dated 1 November 2007, using gross profit of the last three years 2010, 2011 and 2012. The amount calculated as TL 960,159 (31 December 2012: TL 561,159) as at 31 December 2013 represents the operational risk that the Bank may expose and the amount of minimum capital requirement to eliminate this risk. Value at operational risk is amounting to TL 841,338 (31 December 2012: TL 701,998).

(f) Capital management – regulatory capital

The BRSA sets and monitors capital requirements for the Bank as a whole. The parent company and individual banking operations are directly supervised by their local regulators. In implementing current capital requirements, the BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total value at credit, market and operational risks. The Bank and its affiliates' consolidated regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes paid-in capital, share premium, legal reserves, retained earnings, translation reserve and non-controlling interests after deductions for goodwill and certain cost items.
- Tier 2 capital, which includes qualifying subordinated liabilities, general provisions and the element of the fair value reserve relating to unrealised gain/(loss) on assets classified as available-for-sale.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Bank and its individually regulated operations have complied with externally imposed capital requirements throughout the year. There have been no material changes in the Bank's management of capital during the period.

26. Financial risk management *(continued)*

(f) Capital management – regulatory capital *(continued)*

Starting from 1 July 2012, the capital adequacy ratio is calculated within the scope of the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks (the "Regulation")", "Regulation on Credit Risk Mitigation Techniques" and "Regulation on Calculation of Risk Weighted Amounts for Securitisations" published in the Official Gazette no.28337 dated 28 June 2012 and the "Regulation on Equities of Banks" published in the Official Gazette no.26333 dated 1 November 2006. In calculation of capital adequacy ratio, the data prepared from accounting records in compliance with the current legislation are used. Such accounting data is included in the calculation of credit and market risks subsequent to their designation as "trading book" and "banking book" according to the Regulation. The items classified as trading book and the items deducted from the equity are not included in the calculation of credit risk. In the calculation of risk weighted assets, the assets subject to amortisation or impairment, are taken into account on a net basis after being reduced by the related amortisations and provisions. In the calculation of the value at credit risk for the non-cash loans and commitments and the receivables from counterparties in such transactions are weighted after netting with specific provisions that are classified under liabilities and calculated based on the "Regulation on Identification of and Provision against Non-Performing Loans and Other Receivables". The net amounts are then multiplied by the rates stated in the Article 5 of the Regulation, reduced as per the "Regulation on Credit Risk Mitigation Techniques" and then included in the relevant exposure category defined in the article 6 of the Regulation and weighted as per Appendix-1 of the Regulation.

In the calculation of the value at credit risk for the derivative financial instruments and the credit derivatives classified in banking book, the receivables from counterparties are multiplied by the rates stated in the Appendix-2 of the Regulation, reduced as per the "Regulation on Credit Risk Mitigation Techniques" and then included in the relevant exposure category defined in the article 6 of the Regulation and weighted as per Appendix-1 of the Regulation.

As per the article 5 of the Regulation, the "counterparty credit risk" is calculated for repurchase transactions, securities and commodities borrowing agreements.

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

26. Financial risk management *(continued)*

(f) Capital management – regulatory capital *(continued)*

The Bank's and its affiliates' regulatory capital position on a consolidated basis as of 31 December 2013 is as follows:

	31 December 2013	31 December 2012
Tier 1 capital	1,203,260	1,061,448
Tier 2 capital	12,329	120,368
Deductions from capital	-	(75)
Total regulatory capital	**1,215,589**	**1,181,741**
Risk-weighted assets	6,584,503	5,274,250
Value at market risk	960,050	607,788
Operational risk	804,475	701,988
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	14.56%	17.95%
Total tier 1 capital expressed as a percentage of risk-weighted assets, value at market risk and operational risk	14.41%	16.12%

27. Subsequent events

None.