Aktif Yatırım Bankası Anonim Şirketi and Its Subsidiaries

**Consolidated 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
14 February 2014

This report contains 2 pages of independent auditors' report and 66 pages of consolidated financial statements and notes to the consolidated financial statements.

Aktif Yatırım Bankası Anonim Şirketi and Its Subsidiaries

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Aktif Yatırım Bankası Anonim Şirketi:

We have audited the accompanying consolidated financial statements of Aktif Yatırım Bankası Anonim Şirketi and its subsidiaries (the "Group"), 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 ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

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

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

Basis for Qualified Opinion

The consolidated financial statements as at 31 December 2013 consist of a general provision amounting to TL 32,000 thousand of which TL 25,000 thousand is written off in the previous periods and TL 7,000 thousand is in the current period, provided by the Bank management for the possible result of the negative circumstances which may arise from any changes in the economy or market conditions. If the mentioned general provision were not provided, as at 31 December 2013, the other provisions would decrease by TL 32,000 thousand, prior period profit and loss would decrease by TL 5,000 and retained earnings would increase by TL 25,000 thousand, as at 31 December 2013 and 31 December 2012, other operating income, profit before tax and net profit for the period would increase by TL 7,000 thousand and decrease by TL 5,000 thousand respectively.

Qualified Opinion

In our opinion, except for the effects on the consolidated financial statements of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2013, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without further qualifying our opinion, we draw attention to the following matter:

As described in Note 33 to the consolidated financial statements, the Bank has provided a significant portion of cash and non-cash loans to its related parties (Çalık Group Companies) as at 31 December 2013.

KPMG Akis Bağımsız Denetim ve SMMM AŞ

14 February 2014
Istanbul, Turkey

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Consolidated Statement of Financial Position
As at 31 December 2013
(Currency - In thousands of Turkish Lira ("TL"))

	Note	31 December 2013	31 December 2012
ASSETS			
Cash and cash equivalents	*8*	196,494	376,119
Reserve deposits at Central Bank	*9*	299,299	151,602
Trading assets	*10*	6,248	4,726
Trade and other receivables		6,157	-
Inventories		3,957	-
Loans and advances to customers	*12*	3,580,143	2,366,560
Investment securities	*11*	644,789	571,521
Equity accounted investees	*13*	8,675	-
Tangible assets	*15*	181,950	7,115
Intangible assets	*16*	36,829	19,588
Goodwill	*14*	3,796	-
Deferred tax assets	*21*	5,118	4,113
Other assets	*17*	117,902	16,251
Total assets		**5,091,357**	**3,517,595**
LIABILITIES			
Trading liabilities	*10*	1,475	3,244
Trade and other payables		7,177	-
Obligations under repurchase agreements	*18*	538,404	398,586
Financial lease liabilities		32,229	-
Debt securities issued	*20*	2,004,194	1,501,596
Funds borrowed	*19*	1,098,274	524,015
Provisions	*22*	54,054	40,182
Income taxes payable	*21*	8,791	9,199
Other liabilities	*23*	512,505	582,481
Total liabilities		**4,257,103**	**3,059,303**
EQUITY			
Share capital	*24*	701,595	235,448
Legal reserves		11,279	6,931
Reserves		(10,716)	33,799
Retained earnings		131,412	182,114
Total equity attributable to equity holders of the Bank		**833,570**	**458,292**
Non-controlling interests		684	-
Total equity		**834,254**	**458,292**
Total liabilities and equity		**5,091,357**	**3,517,595**

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

(Currency - In thousands of Turkish Lira ("TL"))

	Note	**2013**	**2012**
Interest income	*25*	515,006	331,810
Interest expense	*25*	(243,494)	(189,062)
Net interest income		**271,512**	**142,748**
Fees and commission income	*26*	98,183	59,382
Fees and commission expense	*26*	(19,793)	(11,614)
Net fee and commission income		**78,390**	**47,768**
Net trading (loss) / income	*27*	(9,348)	3,054
Sales income		35,110	-
Other income	*28*	25,745	27,672
Operating income		**401,409**	**221,242**
Net impairment loss on financial assets	*12, 29*	(43,416)	(10,003)
Impairment on stock		(1,141)	-
Personnel expenses	*30*	(88,995)	(55,792)
Depreciation and amortisation		(12,682)	(4,702)
Administrative expenses	*31*	(43,797)	(23,517)
Cost of sales		(3,337)	-
Cost of services		(20,930)	-
Other operating expenses	*32*	(24,758)	(9,520)
Total operating expenses		**(239,056)**	**(103,534)**
Share of profit of equity accounted investee	*13*	(191)	-
Profit before income tax		**162,162**	**117,708**
Income tax expense	*21*	(36,765)	(22,664)
Net profit for the year from continuing operations		**125,397**	**95,044**
Other comprehensive income			
Items that will not be reclassified to profit or loss:		**133**	**-**
Change in actuarial gain related to employee benefits		166	-
Tax effect		(33)	-
Items that are or may be reclassified subsequently to profit or loss:		**(18,941)**	**15,199**
Change in fair value of available-for-sale financial assets		(25,173)	19,002
Foreign currency translation differences		1,197	
Income tax on other comprehensive income	*21*	5,035	(3,803)
Other comprehensive income for the year, net of tax		**(18,808)**	**15,199**
Total comprehensive income for the year		**106,589**	**110,243**
Profit attributable to			
Equity holders of the Bank		125,263	95,044
Non-controlling interest		134	-
Profit for the year		**125,397**	**95,044**
Total comprehensive income attributable to:			
Equity holders of the Bank		106,455	110,243
Non-controlling interest		134	-
Total comprehensive income for the year		**106,589**	**110,243**

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

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2013

(Currency - In thousands of Turkish Lira ("TL"))

	Note	Share capital	Adjustment to share capital	Legal reserves	Fair value reserve	Translation reserve	Revaluation surplus	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
At 1 January 2013												
Total comprehensive income for the year		**230,000**	**5,448**	**6,931**	**8,139**	**-**	**25,660**	**-**	**182,114**	**458,292**	**-**	**458,292**
Profit for the year		-	-	-	-	-	-	-	125,263	125,263	134	125,397
- Other comprehensive income												
Net change in fair value of available-for-sale financial assets		-	-	-	(20,138)	-	-	-	-	(20,138)	-	(20,138)
Net change in actuarial gain related to employee benefits		-	-	-	-	-	-	-	133	133	-	133
Foreign currency translation differences		-	-	-	-	1,197	-	-	-	1,197	-	1,197
Total other comprehensive income		**-**	**-**	**-**	**(20,138)**	**1,197**	**-**	**-**	**133**	**(18,808)**	**-**	**(18,808)**
Total comprehensive income for the year		**-**	**-**	**-**	**(20,138)**	**1,197**	**-**	**-**	**125,396**	**106,455**	**134**	**106,589**
Transactions with owners, recorded directly in equity												
Capital increase in cash	*24*	298,000	-	-	-	-	-	-	-	298,000	-	298,000
Transfers to share capital		169,085	(938)	-	-	-	(25,660)	-	(142,487)	-	-	-
Transfer to reserves		-	-	4,348	-	-	-	86	(4,434)	-	-	-
Total transactions with owners, recorded directly in equity		**467,085**	**(938)**	**4,348**	**-**	**-**	**(25,660)**	**86**	**(146,921)**	**298,000**	**-**	**298,000**
Changes in ownership interest in subsidiaries												
Acquisition of non-controlling interests through business combination		-	-	-	-	-	-	-	-	-	244	244
Transaction with under common control	*4*	-	-	-	-	-	-	-	(29,177)	(29,177)	-	(29,177)
Transactions with owners of non-controlling interests		-	-	-	-	-	-	-	-	-	306	306
Total transactions with owners		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(29,177)**	**(29,177)**	**550**	**(28,627)**
At 31 December 2013		**697,085**	**4,510**	**11,279**	**(11,999)**	**1,197**	**-**	**86**	**131,412**	**833,570**	**684**	**834,254**

AKTİF YATIRIM BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2013

(Currency - In thousands of Turkish Lira ("TL"))

	Note	**Share capital**	**Adjustment to share capital**	**Legal reserves**	**Fair value reserve**	**Translation Reserve**	**Revaluation surplus**	**Other Reserves**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total equity**
At 1 January 2012		**230,000**	**5,448**	**4,429**	**(7,060)**	**-**	**25,660**	**-**	**89,572**	**348,049**	**-**	**348,049**
Total comprehensive income for the year												
Profit for the year		-	-	-	-	-	-	-	95,044	95,044	-	95,044
- Other comprehensive income		-	-	-	-	-	-	-	-	-	-	-
Net change in fair value of available-for-sale financial assets		-	-	-	15,199	-	-	-	-	15,199	-	15,199
Total other comprehensive income		**-**	**-**	**-**	**15,199**	**-**	**-**	**-**	**-**	**15,199**	**-**	**15,199**
Total comprehensive income for the year		**-**	**-**	**-**	**15,199**	**-**	**-**	**-**	**95,044**	**110,243**	**-**	**110,243**
Transactions with owners, recorded directly in equity												
-Contributions by and distributions to owners		-	-	-	-	-	-	-	-	-	-	-
Capital increase in cash	*31*	-	-	-	-	-	-	-	-	-	-	-
Total transactions with owners, recorded directly in equity		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transfers												
Transfer to legal reserves		-	-	2,502	-	-	-	-	(2,502)	-	-	-
At 31 December 2012		**230,000**	**5,448**	**6,931**	**8,139**	**-**	**25,660**	**-**	**182,114**	**458,292**	**-**	**458,292**

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

Consolidated Statement of Cash Flows
For the Year Ended 31 December 2013

(Currency - In thousands of Turkish Lira ("TL"))

	Note	**2013**	**2012**
Cash flows from operating activities			
Net profit for the year		125,397	95,044
Adjustments for:			
Depreciation and amortisation	*15, 16*	12,682	4,702
Retirement pay provision expense	*22*	1,670	327
Unused vacation provision expense		677	401
Impairment on financial assets	*12*	43,416	9,960
(Reversal) / impairment of non-cash loans		-	(2,745)
Net interest income	*25*	(271,512)	(142,748)
Share of profit of equity investee		(191)	-
(Reversal) / provision for possible losses		7,000	(5,000)
Unrealised foreign exchange loss / (gain)		(13,367)	12,305
Unrealised gain on derivative transactions		(1,057)	(529)
Other expense accruals		-	(3,271)
Income tax	*21*	36,765	22,664
		(58,520)	**(8,890)**
Change in reserve deposit at Central Bank		(147,697)	(62,024)
Change in trading assets		902	110
Change in loans and advances to customers		(1,136,533)	(689,135)
Change in other assets		(97,584)	(3,709)
Change in obligations under repurchase agreements		139,759	46,834
Proceeds from borrowings		495,373	110,480
Change in other liabilities and provisions		(79,013)	46,318
		(824,793)	**(560,016)**
Interest received		623,795	301,546
Interest paid		(728,555)	(182,400)
Retirement pay provision and unused vacation paid	*22*	(84)	(88)
Income tax paid	*21*	(26,161)	(18,505)
Net cash used in operating activities		**(131,005)**	**(459,463)**
Cash flows from investing activities			
Purchase of investment securities		(1,210,349)	(922,959)
Sale of investment securities		961,293	837,263
Purchase of tangible assets	*15*	(165,344)	(4,405)
Equity accounted investees		(7,287)	-
Proceeds from the sale of tangible assets		-	98
Purchase of intangible assets	*16*	(8,997)	(2,853)
Acquisition of subsidiaries		(35,072)	-
Development expenditure	*16*	(8,005)	(3,863)
Proceeds from sale of held to maturity investments		-	3,656
Net cash used in investing activities		**(473,761)**	**(93,063)**
Cash flows from financing activities			
Proceeds from debt securities issued		3,112,171	7,765,529
Repayment of debt securities issued		(2,135,851)	(7,111,190)
Change in financial lease liabilities		32,228	-
Proceeds from share capital increase	*24*	298,000	-
Net cash provided from financing activities		**1,306,548**	**654,339**
Net increase/(decrease) in cash and cash equivalents		**(181,531)**	**101,813**
Effect of exchange rate fluctuations on cash		1,845	(481)
Cash and cash equivalents on 1 January	*8*	376,119	274,776
Cash and cash equivalents on 31 December	*17*	**196,433**	**376,108**

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

Notes to the consolidated financial statements

1. Reporting entity

Aktif Yatırım Bankası Anonim Şirketi (the “Bank”) was incorporated under the name of Çalık Yatırım Bankası A.Ş. in Turkey in July 1999. The Bank changed its name as Aktif Yatırım Bankası A.Ş. on 1 August 2008.

The Bank operates as an “investment bank” and is mainly involved in corporate and consumer services such as cash or non-cash, financial leasing, factoring, corporate lending. As an investment bank, the Bank borrows funds from other banks, financial markets, partners and credit customers, but is not entitled to receive deposits from customers.

The head office of the Bank is located at Büyükdere Cad. No: 163/A Zincirlikuyu / Istanbul, and the Bank have also seven branches.

The Bank employs 623 people as at 31 December 2013 (31 December 2012: 436).

The Bank and its subsidiaries are hereafter referred to as the “Group”.

The Group controls equity stakes in companies that are active in the areas of technology system integration, payment center, insurance brokerage, consulting in real estate projects, real estate, islamic financial leasing and electronic payment systems. Activities carried out in these business areas and main companies are explained below in summary.

Sigortayeri Sigorta ve Readürans Brokerlığı A.Ş. (Sigortayeri): With the virtual and physical multi-channel structure that is shaped according to the needs of potential policyholders comparative insurance products, provide customers with fast and intuitive way to operate in the field of insurance broking.

E-Post Elektronik Perakende Otomasyon Satış Ticaret A.Ş. (E-Post): Aktif Nokta allocated to business with the brand through reliable/secure devices, sales and collection operations for making the dealership system.

E-Kent Teknoloji ve Ödeme Sistemleri Sanayi ve Ticaret A.Ş. (E-Kent): E-Kent, increases both the new products and services applied in the field and also the number of cities (in 22 cities) in which services are offered in its fields of operation with its vision which is “building city technologies”.

Pavo Teknik Servis Elektrik ve Elektronik Sanayi ve Ticaret A.Ş. (Pavo): Pavo operates in the area of new generation payment recorders import, manufacture, sales and technical services.

Emlak Girişim Danışmanlığı A.Ş. (Emlak Girişim): Works on real estate projects, structures and systems, and in this regard make active counseling and guidance.

İFM İstanbul Finans Merkezi İnşaat Taahhüt A.Ş. (İFM): IFM operates in special projects, land recreation, area sales and revenue sharing provisions for the construction of the immovable, construction and sales activity is independent sections.

Kazakhstan Ijara Company Jsc. (KIC): Kazakhstan İjara Company carrys on islamic leasing business. The aim of firm in Kazakhstan to support the development of small and medium enterprises (SMEs) by providing alternative sources of Shariah compliant financing for their projects.

2. Basis of preparation

2.1 Statement of compliance

The Bank and its subsidiaries operating in Turkey maintain their books of account and prepare their statutory consolidated financial statements in Turkish Lira ("TL") in accordance with the accounting principles as promulgated by the Banking Regulation and Supervision Agency ("BRSA"), Capital Markets Board of Turkey, the Turkish Commercial Code and tax legislation. The foreign subsidiaries maintain their books of account in accordance with the laws and regulations in force in the countries in which they are registered.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and its interpretations adopted by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorised for issue by the Bank's management on 14 February 2014. The Bank's General Assembly and the other reporting bodies have the power to amend the consolidated financial statements after their issue.

2.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis as adjusted for the effects of inflation, except for the following;

- derivative financial instruments are measured at fair value
- financial assets at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgements

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the application of policies and in the measurement of income and expenses in the profit and loss statement and in the carrying value of assets and liabilities in the statement of financial position, and in the disclosure of information in the notes to the consolidated financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. The 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 year in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the consolidated financial statements are described in notes 4 and 5.

2. Basis of preparation *(continued)*

2.5 Change 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.

a) *IFRS 10 Consolidated Financial Statements (2011)*
b) *IFRS 12 Disclosure of Interests in Other Entities*
c) *IFRS 13 Fair Value Measurement*
d) *Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)*
e) *Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)*
f) *IAS 19 Employee Benefits (2011)*

The nature and the effects of the changes are explained below.

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 consolidated financial statements.

b) Interests in other entities

As a result of IFRS 12, additional disclosures should be made by the Group.

c) Fair value measurement

In accordance with the transitional provisions of IFRS 13, the Group has applied the new definition of fair value, as set out in Note 3.10, 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 consolidated financial statements, which are required under IFRS 13.

d) Offsetting financial assets and financial liabilities

As a result of the amendments to IFRS 7, additional disclosures should be made by the Group.

e) Presentation of items of other comprehensive income

As a result of the amendments to IAS 1, the Group has modified the presentation of items of other comprehensive income (“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 started to recognize all actuarial gains and losses immediately in other comprehensive income in accordance with the change in IAS 19 (2011).
The Group recognized all actuarial gains and losses in profit or loss in previous years. Since the effect of this change has an immaterial effect on the previous year’s consolidated financial statements, the Group did not restate its consolidated financial statements as at and for the year ended 31 December 2012.

(Currency - In thousands of Turkish Lira ("TL"))

3. Significant accounting policies

3.1 Accounting in hyperinflationary economies

The consolidated financial statements of the Turkish entities have been restated for the changes in the general purchasing power of the Turkish Lira based on International Accounting Standard ("IAS") No. 29 "Financial Reporting in Hyperinflationary Economies" as at 31 December 2005. IAS 29 requires that consolidated financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current on the reporting date, and that corresponding figures for prior periods 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 has been 35.61% as at 31 December 2005, based on the Turkish nation-wide wholesale price indices announced by the Turkish Statistical Institute ("TURKSTAT"). By taking this into consideration, together with the sustained positive trend in quantitative factors, such as the stabilisation in financial and monetary markets, decrease in interest rates and the appreciation of TL against USD and other hard currencies, it was declared that Turkey should be considered a non-hyperinflationary economy under IAS 29 from 1 January 2006 as stated in International Standards Alert No. 2006/17 issued on 8 March 2006. Therefore, IAS 29 has not been applied to the accompanying consolidated financial statements starting from 1 January 2006.

3.2 Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Bank at the exchange rates on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate on that date. Foreign currency differences arising on retranslation are recognised in profit or loss.

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

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

3.3 Basis of consolidation

Subsidiaries

The consolidated financial statements incorporate the consolidated financial statements of the Bank and entities controlled by the Bank (its subsidiaries). The control exists if and only if; 1) when the Bank has the power over an affiliate which that power, directly or indirectly, give rights to govern the financial and operating policies of the entity so as to obtain benefits from its activities, 2) exposure, or rights, to variable returns from its involvement with the affiliate, 3) the ability to use its power over the affiliate to affect the amount of its returns. The Bank reassess its control power over its subsidiaries if there is an indication that there are changes to any of the three elements of control.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

3. Significant accounting policies *(continued)*

3.3 Basis of consolidation *(continued)*

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts generally are recognised in profit or loss.

Transactions costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in associates and joint ventures. Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint ventures are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence or joint control ceases.

Non-controlling interests

Non-controlling interests 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.

(Currency - In thousands of Turkish Lira ("TL"))

3. Significant accounting policies *(continued)*

3.3 Basis of consolidation *(continued)*

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related Non-controlling interests 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.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within the Group equity and any gain/loss arising is recognised directly in equity.

Group entities

Subsidiaries		**Direct ownership %**		**Indirect ownership %**	
	Country of Incorporation	**31 December 2013**	**31 December 2012**	**31 December 2013**	**31 December 2012**
Insurance Brokarage					
Sigortayeri Sigorta ve Reasürans Brokerlığı A.Ş.	Turkey	100.00%	-	-	-
Payment Systems					
Epost Elektronik Perakende Otomasyon Satış Tic. A.Ş.	Turkey	99.27%	-	-	-
E-Kent Teknoloji ve Ödeme Sistemleri San ve Tic. A.Ş.	Turkey	-	-	99.27%	-
Real Estate					
Emlak Grişim Danışmanlığı A.Ş.	Turkey	100.00%	-	-	-
Service					
Pavo Teknik Servis Elektrik Elektronik Sanayi ve Ticaret A.Ş.	Turkey	-	-	79.42%	-

Equity accounted investees	**Country of Incorporation**	**Ownership %**
Kazakhstan Ijara Company Jsc	Kazakhstan	14.31
İFM İstanbul Finans Merkezi İnşaat Taahüüt A.Ş.	Turkey	5.00

3. Significant accounting policies *(continued)*

3.4 Interest income / expense

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. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and commissions paid or received transaction costs, and discounts or premiums that are integral part of the effective interest rate.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Interest income and expense presented in profit or loss include the interest income on financial assets and liabilities at amortised cost on an effective interest rate basis.

3.5 Fees and commission

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

Other fees and commission income are recognised as the related services are provided.

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

3.6 Net trading income

Net trading income comprises gains less loss related to trading assets and liabilities, and includes all realised and unrealised fair value changes and foreign exchange differences.

3.7 Dividends

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

3.8 Lease payments made

Payments made under operating leases are recognised in profit or loss 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 on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

3. Significant accounting policies *(continued)*

3.9 Manufacturing and other operations revenue

Revenues are recognised on an accrual basis at the fair values incurred or to be incurred when the goods are delivered, the risks and rewards of ownership of the goods are transferred, when the amount of revenue can be reliably measured and it is probable that the future economic benefits associated with the transaction will flow to the entity. Net sales represent the fair value of goods shipped less sales discounts and returns. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The difference between the fair value and the nominal amount of the consideration is recognised in the period on an accrual basis as financial income.

Sales of the goods

Income obtained from the sales of the goods is accounted after the below conditions are executed:

- The Group's transferring all the important risks and gains related to the property to the buyer,
- The Group not having any control on the continued administrative participation associated with property and on the sold properties,
- Measuring the amount of income reliably,
- Possibility of a flow of the economic benefits related to the act to the Group, and
- Measuring the costs resulting from the act reliably.

Services provided

Contract revenue and costs related to the projects are recognised when the amount of revenue can be reliably measured and the increase in the revenue due to change in the scope of the contract related with the project is highly probable. Contract revenue is measured at the fair value of the consideration received or receivable. Projects are fixed price contracts and revenue is recognised in accordance with the percentage of completion method. The portion of the total contract revenue corresponding to the completion rate is recognised as contract revenue in the relevant period.

3. Significant accounting policies *(continued)*

3.10 Financial assets and liabilities

Recognition

The Bank initially recognises loans and advances to customers, investment securities, funds borrowed, customer accounts and debt securities issued on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

Derecognition

The Bank 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. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

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

Offsetting

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

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

Amortised cost measurement

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

Fair value measurement

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.

3. Significant accounting policies *(continued)*

3.10 Financial assets and liabilities *(continued)*

Fair value measurement (continued)

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.

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)*

3.10 Financial assets and liabilities *(continued)*

Identification and measurement of impairment

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

The Bank considers evidence of impairment for loans and advances and investment debt security portfolio at both a specific asset and collective level. All individually significant loans and advances and investment debt security portfolio are assessed for specific impairment. Loans and advances found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances portfolio with similar risk characteristics.

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

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;
- the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank, 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.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

3. Significant accounting policies *(continued)*

3.10 Financial assets and liabilities *(continued)*

Identification and measurement of impairment (continued)

In assessing collective impairment the Bank uses statistical modelling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

3.11 Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances with Central Bank 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 Bank in the management of its short-term commitments.

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo or stock borrowing"), the arrangement is accounted for as cash and cash equivalents, and the underlying asset is not recognised in the Bank's consolidated financial statements.

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

3.12 Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Bank 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 taken directly to 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.

3.13 Loans and advances to customers

Loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

When the Bank is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is presented within loans and advances to customers.

Loans and advances to customers are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3. Significant accounting policies *(continued)*

3.14 Investment securities

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

(i) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years.

(ii) Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available-for-sale or are not classified 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.

Interest income is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments except the equity securities are recognised in profit or loss.

Other fair value changes are recognised directly in equity until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in equity are recognised in profit or loss.

3.15 Repurchase transactions

The Group enters into purchases/sales of investments under agreements to resell/repurchase substantially identical investments at a certain date in the future at a fixed price. Investments purchased subject to commitments to resell them at future dates are not recognised. The amounts paid are recognised as receivables from reverse repurchase agreements in the accompanying consolidated financial statements. The receivables are shown as collateralized by the underlying security. Investments sold under repurchase agreements continue to be recognised in the consolidated statement of financial position and are measured in accordance with the accounting policy for either assets held for trading, held to maturity or available-for-sale as appropriate. The proceeds from the sale of the investments are reported as obligations under repurchase agreements.

Income and expenses arising from the repurchase and resale agreements over investments are recognised on an accruals basis over the period of the transaction and are included in "interest income" or "interest expense".

3. Significant accounting policies *(continued)*

3.16 Trade receivables

Trade receivables that are created by way of providing goods or services directly to a debtor are carried at amortised cost. Trade receivables, net of unearned financial income, are measured at amortised cost, using the effective interest rate method, less the unearned financial income. Short duration receivables with no stated interest rate are measured at the original invoice amount unless the effect of imputing interest is significant.

A doubtful receivable provision for trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due. The amount of provision is the difference between the carrying amount and the recoverable amount, being the present value of all cash flows, including amounts recoverable from guarantees and collateral, discounted based on the original effective interest rate of the originated receivables at inception.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is recognised in profit or loss.

3.17 Inventories

Inventories are valued at the lower of cost or net realisable value. Cost elements included in inventories are materials, labor and an appropriate amount for factory overheads. The cost of borrowings is not included in the costs of inventories. The cost of inventories is determined on the weighted average basis for each purchase. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. Inventories consist of raw material, semi finished goods, finished goods, commercial goods and other stocks.

3.18 Tangible assets

Recognition and measurement

Items of tangible assets are restated for the effects of inflation to 31 December 2005, less accumulated depreciation and impairment losses. Tangible assets acquired after 31 December 2005 is reflected at cost, less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

Subsequent costs

The cost of replacing part of an item of machinery 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 Bank and its cost can be measured reliably. The costs of the day-to-day servicing of tangible assets are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in the profit or loss on a straight-line basis over the estimated useful lives of each part of an item of tangible assets. Leased assets are depreciated over the shorter of the lease term and their useful lives.

3. Significant accounting policies *(continued)*

3.18 Tangible assets *(continued)*

Depreciation (continued)

The estimated useful lives for as at 31 December 2013 and 2012 are as follows:

- tangible assets 5 years
- furniture and fixtures 5 years
- motor vehicles 5 years
- other fixed assets 4-50 years

Leasehold improvements are depreciated on a straight-line method over the shorter of the lease term and their useful lives.

3.19 Intangible assets

(i) Service agreements

Service agreements acquired in a business combination are recognised at fair value at the acquisition date. The service agreements have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the service agreements.

(ii) Software

Software acquired by the Bank is restated for the effects of inflation to 31 December 2005, less accumulated amortisation and impairment losses. Intangible assets acquired after 31 December 2005 are reflected at cost, less accumulated amortisation and impairment losses.

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

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

Amortisation is recognised in 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 life of software is 1 to 15 years.

3. Significant accounting policies *(continued)*

3.19 Intangible assets *(continued)*

(iii) Goodwill

Goodwill that arises upon the acquisition of subsidiaries the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in profit or loss.

Acquisitions of non-controlling interests

Acquisition of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

(iv) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they meet the definition of an intangible asset and their fair value can be measured reliably. Cost of such intangible assets is the fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and any accumulated impairment losses, on the same basis as intangible assets acquired separately.

3.20 Non-current assets held for sale

Certain non-current assets primarily related to the collateral collected on non-performing loans are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

3. Significant accounting policies *(continued)*

3.21 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed on 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 profit or loss. 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 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.

3.22 Leased assets - lessee

Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and, the leased assets are not recognised on the Bank's statement of financial position.

3.23 Funds borrowed and debt securities issued

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

3. Significant accounting policies *(continued)*

3.24 Provisions

A provision is recognised if, as a result of a past event, the Bank 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 Bank 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 Bank 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 Bank recognises any impairment loss on the assets associated with that contract.

3.25 Employee benefits

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 defined benefit.

Under IAS 19 (2011), the Group determines the net interest expense (income) for the period on the net defined benefit liability by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability at the beginning of the annual period, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. Consequently, the net interest on the net defined benefit liability now comprises:

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

The adoption of the amendment to IAS 19 has no significant impact on liabilities and comprehensive income of the Group as at 31 December 2012, therefore IAS 19 is not applied retrospectively. As per revised IAS 19 all actuarial gain or losses are recognized under other comprehensive income starting from 1 January 2013.

3.26 Trade and other payables

Trade payables are payments to be made arising from the purchase of goods and services from suppliers within the ordinary course of business. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3. Significant accounting policies *(continued)*

3.27 Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted on the reporting date, and any adjustment to tax payable in respect of prior years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by 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 on each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.28 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 consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes when material.

3.29 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 Board of Directors (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.

3. Significant accounting policies *(continued)*

3.30 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.

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.

3. Significant accounting policies *(continued)*

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

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 consolidated financial statements.

4. Financial risk management

Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

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

This note presents information about the Bank’s exposure to each of the above risks, the Bank’s objectives, policies and processes for measuring and managing risk, and the Bank’s management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank’s risk management framework. The Board has established the Audit Committee and Risk Management Department, which are responsible for developing and monitoring Bank risk management policies in their specified areas. The Audit Committee has non-executive members and report regularly to the Board of Directors on their activities.

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 Bank, 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 Audit Committee is responsible for monitoring compliance with the Bank’s risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank’s loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

Management of credit risk

The Bank’s credit risk management strategy is based on a three-part methodology that embraces the customer selection, credit allocation, and credit pricing stages. Since it was founded, the Bank has always managed its credit risks by taking a portfolio-logic approach. This sums up the Bank’s basic risk management strategy.

(Currency - In thousands of Turkish Lira ("TL"))

4. Financial risk management *(continued)*

Credit risk *(continued)*

In the first stage of the lending process, industry weightings are determined and firms that are seeking credit are given a preliminary screening. This initial check is followed by the credit allocation stage in which firms are individually rated and the Bank's guarantee strategy is determined according to the results of this rating. In the final stage of the lending process, prices are determined by taking a risk-premium approach.

Exposure to credit risk

	Cash at banks (excluding cash at Central Bank)		**Trade receivables**		**Loans and advances to customers**		**Investment securities**	
	31 December 2013	**31 December 2012**	**31 December 2013**	**31 December 2012**	**31 December 2013**	**31 December 2012**	**31 December 2013**	**31 December 2012**
Carrying amount	**82,873**	**16,155**			**3,580,143**	**2,366,560**	**644,789**	**571,521**
Assets at amortised cost								
Individually impaired								
- Non-performing financial assets	-	-	-	-	87,945	16,001	-	-
Gross amount	**-**	**-**	**-**	**-**	**87,945**	**16,001**	**-**	**-**
Allowance for impairment	-	-	-	-	(54,145)	(16,001)	-	-
Collectively impaired								
- Non-performing financial assets	-	-	-	-	8,184	2,912	-	-
Gross amount	**-**	**-**		**-**	**8,184**	**2,912**	**-**	**-**
Allowance for impairment	-	-	-	-	(8,184)	(2,912)	-	-
Carrying amount	**-**	**-**	**-**	**-**	**33,800**	**-**	**-**	**-**
Neither past due nor impaired								
- Low risk	82,873	16,155	6,157	-	3,149,998	1,797,207	-	-
- Medium risk	-	-	-	-	228,459	373,742	-	-
- High risk	-	-	-	-	19,393	75,659	-	-
- Non graded	-	-	-	-	148,493	119,952	-	-
Carrying amount amortised cost	**82,873**	**16,155**	**6,157**	**-**	**3,546,343**	**2,366,560**	**-**	**-**
Available for sale assets								
Individually impaired								
- Non-performing financial assets	-	-	-	-	-	-	-	-
Gross amount	**-**	**-**	-	-	-	-	**-**	**-**
Allowance for impairment	-	-			-	-	-	-
Carrying amount	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Neither past due nor impaired								
- Low risk	-	-	-	-	-	-	644,789	571,521
- Medium risk	-	-	-	-	-	-	-	-
- High risk	-	-	-	-	-	-	-	-
- Non graded	-	-	-	-	-	-	-	-
Carrying amount fair value	-	**-**	-	-	-	-	644,789	**571,521**
Total carrying amount	**82,873**	**16,155**	**6,157**	**-**	**3,580,143**	**2,366,560**	**644,789**	**571,521**

(Currency - In thousands of Turkish Lira ("TL"))

4. **Financial risk management** *(continued)*

Credit risk *(continued)*

The disclosures set out in the tables below include financial assets and financial liabilities that:

- are offset in the Group's statement of financial position; or
- are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments, irrespective of whether they are offset in the statement of financial position.

The similar agreements include derivative clearing agreements. Similar financial instruments include derivatives. Financial instruments such as loans and deposits are not disclosed in the tables below unless they are offset in the statement of financial position.

Such collateral is subject to each agreement terms. The terms also give each party the right to terminate the related transactions on the counterparty's failure to post collateral.

The Group receives and gives collateral in the form of cash in respect of the derivative transactions.

Financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

					Related amounts not offset in the statement of financial position		
	Types of financial assets	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments (including non-cash collateral)	Cash collateral received	Net amount
31 December 2013	Derivatives trading assets	2,482	-	2,482	(2,482)	-	-
31 December 2012	Derivatives trading assets	4,175	-	4,175	(4,175)	-	-

					Related amounts not offset in the statement of financial position		
	Types of financial assets	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets offset in the statement of financial position	Net amounts of financial liabilities presented in the statement of financial position	Financial instruments (including non-cash collateral)	Cash collateral received	Net amount
31 December 2013	Derivatives trading liabilities	1,475	-	1,475	(1,475)	-	-
31 December 2012	Derivatives trading liabilities	3,244	-	3,244	(3,244)	-	-

(Currency - In thousands of Turkish Lira ("TL"))

4. **Financial risk management** *(continued)*

Credit risk *(continued)*

Impaired loans and advances to customers and investment securities

Impaired loans and advances to customers and investment debt securities are those for which the Bank determines that it is probable that it will be unable to collect all principal and interest due to according to the contractual terms of the loans and investment debt securities.

Allowance for impairment

The Bank establishes an allowance for impairment losses on assets carried at amortised cost that represents its estimate of incurred losses in its loan and investment debt security portfolio. This allowance is a specific loss component that relates to individually significant exposures.

Due to the increase in the consumer loan portfolio of the Bank and the availability of the historical trends of the probability of default, starting from 1 January 2012, the Bank started to provide collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified except for loans and receivables subject to individual assessment for impairment.

Write-off policy

The Bank writes off a loan or investment debt security balance, and any related allowances for impairment losses, when Bank determines that the loan or security is uncollectible. This determination is reached after considering information such as occurrence of significant changes in the borrower's / 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.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually and collectively impaired assets by risk grade.

	Loans and advances to customers		**Investment securities**	
	Gross	**Net**	**Gross**	**Net**
31 December 2013				
Individually impaired	87,945	33,800	-	-
Collectively impaired	8,184	-	-	-
31 December 2012				
Individually impaired	16,001	-	-	-
Collectively impaired	2,912	-	-	-

(Currency - In thousands of Turkish Lira ("TL"))

4. Financial risk management *(continued)*

Credit risk *(continued)*

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over machinery, other registered securities over assets, and guarantees.

Cash loans	31 December 2013	31 December 2012
Against neither past due nor impaired		
- Cash blockage	39,261	168,597
- Pledge on assets	109,069	140,690
- Cheques and notes	4,152	-
Against past due but impaired		
- Cash blockage	-	-
- Pledge on assets	6,056	5,326
Against individually impaired		
- Pledge on assets	3,150	848
Total	**161,688**	**315,461**

The Bank also holds collateral against non-cash loans as stated below:

Non-cash loans	31 December 2013	31 December 2012
Cash blockage	39,235	134,249
Pledge on assets	66,692	11,622
Cheques and notes	-	-
	105,927	**145,871**

In addition to collaterals stated above, the Bank holds customer sureties amounting against its cash loans and advances to customers and against its non-cash loans.

Concentration risk by location

The Bank's total risk for loans and advances to customers and investment debt securities (held-to-maturity portfolio) is mainly concentrated on Turkey.

(Currency - In thousands of Turkish Lira ("TL"))

4. Financial risk management *(continued)*

Credit risk *(continued)*

Trading assets and investment securities (available-for-sale portfolio)

The Bank held trading assets, investment securities (available-for-sale portfolio) including derivative assets of TL 651,037 (31 December 2012: TL 576,247). An analysis of the credit quality of the maximum credit exposure is as follows:

	Note	31 December 2013	31 December 2012
Government bonds, treasury bills and investment funds			
- Rated BB- (trading portfolio)	*10*	3,766	551
- Rated BB- (available-for-sale portfolio)	*11*	644,789	571,521
Corporate bonds			
- Rated B (available-for-sale portfolio)	*11*	-	-
Derivative assets:			
- Bank and financial institution counterparties	*10*	2,482	4,175
Total		**651,037**	**576,247**

Concentration risk by sector

The Bank monitors concentrations of credit risk for cash loans and advances to customer and non-cash loans to customers by sector. An analysis of concentrations of credit risk at the reporting date is shown below:

	31 December 2013				31 December 2012			
Sector	Cash loans	%	Non-cash loans	%	Cash loans	%	Non-cash loans	%
Construction	32,453	1	454,831	46	198,444	8	449,183	40
Financial institution	61,835	2	44,243	4	80,335	3	68,832	-
General services	1,414,991	39	9,380	1	964,680	41	99,464	15
Media	-	-	54,601	5	-	-	51,888	5
Automotive	730	-	16,996	2	-	-	25,569	2
Textile	96,033	3	34,835	4	70,602	3	25,305	2
IT industry	-	-	15,000	2	35,061	1		-
Electricity industry	-	-	19,091	2	28,313	1	11,493	1
Iron and steel industry	-	-	203	-	192,209	8	7,955	1
Public	-	-	-	-	126	-	5,000	-
Machinery and equipment	4,176	-	17,396	2	7,611	1	1,437	-
Energy industry	-	-	224,958	23	23,466	1	308,176	27
Trade	118,499	3	30,521	3	37,312	2	14,821	1
Other(*)	1,851,426	52	71,415	6	728,401	31	66,010	6
	3,580,143	**100**	**993,470**	**100**	**2,366,560**	**100**	**1,135,133**	**100**

(*) Includes consumer loans, unclassified loans and leasing receivables.

(Currency - In thousands of Turkish Lira ("TL"))

4. Financial risk management *(continued)*

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The Bank funds its short-term liquidity with interbank. In the case of long-term liquidity need, the Bank utilises capital market instruments. Additionally, the Bank also funds itself from the domestic and foreign market when it needs additional funds.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to short-term funds borrowed. For this purpose net liquid assets are considered as including cash and cash equivalents and trading debt securities for which there is an active and liquid market less any short-term funds borrowed and commitments. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the BRSA.

	31 December 2013	31 December 2012
Average for the year	174%	197%
Maximum for the year	219%	267%
Minimum for the year	135%	113%

(Currency - In thousands of Turkish Lira (“TL”))

4. Financial risk management *(continued)*

Liquidity risk *(continued)*

Residual contractual maturities of financial liabilities

	Note	Carrying amount	Gross nominal inflow / (outflow)	On demand	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
31 December 2013									
Non-derivative liabilities									
Obligations under repurchase agr.	*18*	538,404	(538,613)	-	(538,591)	(22)	-	-	-
Debt securities issued	*20*	2,004,194	(2,032,349)	-	(904,250)	(639,757)	(488,342)	-	-
Funds borrowed	*19*	1,098,274	(1,104,507)	-	(692,393)	(95,888)	(307,102)	(9,124)	-
Trade payables		7,177	(7,177)	-	(7,177)	-	-	-	-
Financial lease liabilities		32,229	(32,229)	-	-	-	(32,229)	-	-
Customer accounts(*)	*23*	456,383	(456,554)	(436,808)	(19,746)		-	-	-
Derivative financial instruments									
Outflow	*10*	(2,482)	377,947	-	346,804	31,143	-	-	-
Inflow	*10*	1,475	(382,034)	-	(350,964)	(31,070)	-	-	-
		4,135,654	**(4,175,516)**	**(436,808)**	**(2,166,317)**	**(735,594)**	**(827,673)**	**(9,124)**	**-**

(*) Included in other liabilities.

	Note	Carrying amount	Gross nominal inflow / (outflow)	On demand	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
31 December 2012									
Non-derivative liabilities									
Obligations under repurchase agr.	*18*	398,586	(399,823)	-	(363,061)	(29,608)	(7,154)	-	-
Debt securities issued	*20*	1,501,596	(1,532,860)	-	(630,436)	(378,078)	(524,346)	-	-
Funds borrowed	*19*	524,015	(531,483)	-	(80,851)	(235,017)	(196,987)	(18,628)	-
Customer accounts(*)	*23*	523,758	(523,812)	(523,812)	-	-	-	-	-
Derivative financial instruments									
Outflow	*10*	4,175	(589,495)	-	(284,258)	(233,780)	(71,457)	-	-
Inflow	*10*	(3,244)	588,818	-	284,240	233,525	71,053	-	-
		2,948,886	**(2,988,655)**	**(523,812)**	**(1,074,366)**	**(642,958)**	**(728,891)**	**(18,628)**	**-**

(*) Included in other liabilities.

The gross nominal inflow / (outflow) disclosed in the table above is the contractual, undiscounted cash flow on the financial liability or commitment.

Market risk

Market risk is the risk that, measured by changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor’s / issuer’s credit standing) which will affect the Bank’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 optimising the return on risk.

Overall authority for market risk is vested in Asset and Liability Committee (“ALCO”).

(Currency - In thousands of Turkish Lira ("TL"))

4. Financial risk management *(continued)*

Market risk *(continued)*

Exposure to market risks – trading portfolios

The principal tool used to measure and control market risk exposure within the Bank's portfolios is Standard Method.

A summary of the Standard Method position of the Bank's portfolios on 31 December 2013 and 2012 and during the period is as follows:

	At the end of the year	**Average**	**Maximum**	**Minimum**
31 December 2013				
Foreign currency risk	2,818	850	5,119	111
Interest rate risk	10,075	11,482	13,279	10,075
Counterparty	2,959	1,743	2,959	984
Equity risk	452	420	485	66
	16,304	**14,495**	**21,842**	**11,236**
31 December 2012				
Foreign currency risk	90	167	408	80
Interest rate risk	10,174	8,411	11,719	3,381
Counterparty	1,181	1,011	1,318	710
Equity risk	66	75	86	65
	11,511	**9,664**	**13,531**	**4,236**

(Currency - In thousands of Turkish Lira ("TL"))

4. Financial risk management *(continued)*

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 Department of the Bank in its day-to-day monitoring activities. A summary of the Bank's interest rate gap position on non-trading portfolios is as follows:

	Note	Carrying amount	Unallocated	On demand	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
31 December 2013									
Cash and cash equivalents	*8*	196,494	-	145,219	51,275	-	-	-	-
Reserve deposits at Central Bank	*9*	299,299	-	-	299,299	-	-	-	-
Trading assets	*10*	6,248	-	-	6,248	-	-	-	-
Loans and advances to customers	*12*	3,580,143	-	-	2,054,819	171,033	202,840	1,078,891	72,560
Investment securities – AFS	*11*	644,789	-	-	193,766	45,787	101,438	279,257	24,541
		4,726,973	**-**	**145,219**	**2,605,407**	**216,820**	**304,278**	**1,358,148**	**97,101**
Obligations under repurchase agr.	*18*	538,404	-	-	538,404	-	-	-	-
Debt securities issued	*20*	2,004,194	-	-	1,530,364	467,280	6,550	-	-
Financial lease liabilities		32,229	-	-	-	-	32,229	-	-
Funds borrowed	*19*	1,098,274	-	-	786,844	224,851	75,907	10,672	-
		3,673,101	**-**	**-**	**2,855,612**	**692,131**	**114,686**	**10,672**	**-**
Interest rate gap		**1,053,872**	**-**	**145,219**	**(250,205)**	**(475,311)**	**189,592**	**1,347,476**	**97,101**

	Note	Carrying amount	Unallocated	On demand	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
31 December 2012									
Cash and cash equivalents	*8*	376,119	-	369,109	7,010	-	-	-	-
Reserve deposits at Central Bank	*9*	151,602	-	151,602	-	-	-	-	-
Trading assets	*10*	4,726	-	-	3,949	777	-	-	-
Loans and advances to customers	*12*	2,366,560	-	-	1,562,717	37,791	126,086	584,225	55,741
Investment securities – AFS	*11*	571,521	-	-	84,705	137,284	77,347	246,855	25,330
		3,470,528	**-**	**520,711**	**1,658,381**	**175,852**	**203,433**	**831,080**	**81,071**
Obligations under repurchase agr.	*18*	398,586	-	-	391,636	6,950	-	-	-
Debt securities issued	*20*	1,501,596	-	-	1,000,797	272,564	228,235	-	-
Funds borrowed	*19*	524,015	-	-	313,531	107,437	85,210	17,837	-
		2,424,197	**-**	**-**	**1,705,964**	**386,951**	**313,445**	**17,837**	**-**
Interest rate gap		**1,046,331**	**-**	**520,711**	**(47,583)**	**(211,099)**	**(110,012)**	**813,243**	**81,071**

(Currency - In thousands of Turkish Lira ("TL"))

4. Financial risk management *(continued)*

Market risk *(continued)*

Interest rate sensitivity

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves. An analysis of the Bank's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

	Profit or loss		Equity	
At 31 December 2013	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
Trading securities	-	-	-	-
Investment securities – available-for-sale	-	-	(5,950)	6,175
	-	**-**	**(5,950)**	**6,175**

	Profit or loss		Equity	
At 31 December 2012	**100 bp increase**	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
Trading securities	-	-	-	-
Investment securities – available-for-sale	-	-	(5,864)	6,124
	-	**-**	**(5,864)**	**6,124**

Summary of average interest rates

As at 31 December 2013 and 2012, the summary of average interest rates for different assets and liabilities are as follows:

	31 December 2013			31 December 2012		
	Euro	**USD**	**TL**	**Euro**	**USD**	**TL**
Assets						
Cash and cash equivalents	-	-	8.82	-	-	6.75
Trading assets	-	-	-	-	-	-
Loans and advances to customers	8.63	8.33	12.57	7.83	6.79	11.35
Investment securities – AFS	5.13	11.88	7.51	5.13	11.88	9.43
Investment securities – HTM	-	-	-	-	-	-
Liabilities						
Obligations under repurchase agreements	3.51	3.25	6.97	3.61	1.00	6.11
Debt securities issued	4.53	4.71	10.16	4.06	4.17	9.56
Funds borrowed	2.64	2.46	8.91	1.83	3.02	5.84

(Currency - In thousands of Turkish Lira (“TL”))

4. Financial risk management *(continued)*

Foreign currency risk

31 December 2013	**Euro**	**USD**	**Other**	**Total**
Cash and cash equivalents	29,372	35,123	4,879	69,374
Reserve deposits at Central Bank	53,186	236,811	9,302	299,299
Loans and advances to customers	323,073	435,147	-	758,220
Investment securities – AFS	15,841	17,886	-	33,727
Other assets	2,065	10,035	34	12,134
Funds borrowed	(164,438)	(665,057)	-	(829,495)
Obligations under repurchase agreements	(15,486)	(1,551)	-	(17,037)
Debt securities issued	(119,507)	(142,368)	-	(261,875)
Other liabilities	(198,565)	(159,456)	(13,267)	(371,287)
Net statement of financial position	**(74,459)**	**(233,430)**	**948**	**(306,940)**
Forward exchange contracts	74,732	185,416	-	260,148
Net total position	**273**	**(48,014)**	**948**	**(46,792)**

31 December 2012	**Euro**	**USD**	**Other**	**Total**
Cash and cash equivalents	21,999	5,205	2,104	29,308
Reserve deposits at Central Bank	88,037	63,565	-	151,602
Loans and advances to customers	293,133	362,191	-	655,324
Investment securities – AFS	13,718	19,430	-	33,148
Other assets	2,145	19	-	2,164
Funds borrowed	(140,137)	(248,824)	-	(388,961)
Obligations under repurchase agreements	(2,939)	(8,917)	-	(11,856)
Debt securities issued	(68,540)	(89,124)	-	(157,664)
Other liabilities	(261,081)	(38,744)	(9,305)	(309,130)
Net statement of financial position	**(53,665)**	**64,801**	**(7,201)**	**3,935**
Forward exchange contracts	53,500	(65,813)	8,238	(4,075)
Net total position	**(165)**	**(1,012)**	**1,037**	**(140)**

(Currency - In thousands of Turkish Lira ("TL"))

4. Financial risk management *(continued)*

Foreign currency risk *(continued)*

Sensitivity analysis

A 10 percent weakening of TL against the foreign currencies on 31 December 2013 and 2012 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

31 December 2013	Equity	Profit or loss
Euro	27	3
USD	(4,801)	(4,581)
Other currencies	95	95
	(4,679)	**(4,483)**

31 December 2012	Equity	Profit or loss
Euro	(17)	83
USD	(101)	51
Other currencies	104	104
	(14)	**238**

A 10 percent strengthening of the TL against the foreign currencies on 31 December 2013 and 2012 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

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 as a 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 framework, an appropriate monitoring methodology is developed for each control area that covers all operational risks and control frequencies are determined.

All the operational risks that are exposed during the operations, the risk levels of the operations and/or new products/services, together with the losses of the Bank arising from operational risks are regularly monitored by the Risk Management Department of the Bank, and if deemed necessary, the risk levels are updated and periodically reported to the Risk Committee and the Board of Directors.

4. Financial risk management *(continued)*

Operational risk *(continued)*

The Group calculated the value of operational risk in accordance with the fourth section regarding 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 June 2007, using gross profit of the last three years 2012, 2011 and 2010 ("the Basic Indicator Approach). The amount, calculated as TL 23,439 as at 31 December 2013 (31 December 2012: TL 15,882) represents the operational risk that the Group may be exposed to and the amount of minimum capital requirement to eliminate this risk. Value of operational risk amounted to TL 292,987 (31 December 2012: TL 198,520) and is calculated as 12.5 times the operational risk.

Capital management

The Bank's lead regulator, BRSA sets and monitors capital requirements for the Bank as a whole.

The capital adequacy ratio calculations are made in accordance with the "Regulation on Measurement and Evaluation of Capital Adequacy of Banks" published in Official Journal No 28337 of 28 June 2012 from 1 July 2012. Standard Method is used to calculate market risk which is included in computation of capital adequacy ratio.

In implementing current capital requirements of BRSA requires the Bank to maintain an 8% ratio of total capital to total risk-weighted assets.

As at 31 December 2013, the Bank's capital adequacy ratio is 13.23% (31 December 2012: 12.34%).

(Currency - In thousands of Turkish Lira ("TL"))

4. Financial risk management *(continued)*

Business combinations

According to share transfer agreement dated 7 August 2013, E-Post has decided to purchase 100 percent of shares at E-Kent which is ultimately controlled by the same Group both before and after the combination for a consideration of TL 37,500. On 11 September 2013, the share transfer was finalised and E-Post obtained control by acquiring 100 percent of shares and voting rights in E-Kent.

Pre-acquisition carrying amounts were determined based on the applicable IFRSs immediately before the acquisition. The values of assets, liabilities and contingent liabilities recognised on acquisition are their estimated fair values.

The following summarises the major classes of consideration transferred and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

Consideration transferred	
Cash paid	37,500
Total consideration	**37,500**

	Recognised values on acquisition
Identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	6,568
Trade and other receivables	9,697
Inventories	3,328
Other assets	1,349
Tangible assets	17,315
Intangible assets	5,070
Total assets	**43,327**
Funds borrowed	(25,857)
Trade and other payables	(3,366)
Other liabilities	(5,720)
Total liabilities	**(34,943)**
Total net identifiable assets	**8,384**

Excess of net assets over cash paid is amounting to TL 29,177 is recognised in "Transactions under common control" directly in equity.

Total consideration transferred	**37,500**
Non-controlling interest based on their proportionate interest in the recognised amounts of the assets and liabilities of the acquiree	61
Less: Value of net identifiable assets	(8,384)
	29,177

Cash consideration transferred	37,500
Cash and cash equivalents acquired	(6,568)
Net cash outflow arising on acquisition	**30,932**

(Currency - In thousands of Turkish Lira ("TL"))

4. Financial risk management *(continued)*

Business combinations *(continued)*

According to share transfer agreement dated 26 August 2013, E-Kent has decided to purchase 80 percent of shares at Pavo for a consideration of TL 4,529. On 20 September 2013, the share transfer was finalised and E-Kent obtained control by acquiring 80 percent of shares and voting rights in Pavo.

Pre-acquisition carrying amounts were determined based on the applicable IFRSs immediately before the acquisition. The values of assets, liabilities and contingent liabilities recognised on acquisition are their estimated fair values.

The fair value of the company acquired is based on the Net Asset Value Method.

The following summarises the major classes of consideration transferred and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

Consideration transferred	
Cash paid	4,529
Total consideration	**4,529**

	Carrying amount	Fair value
Identifiable assets acquired and liabilities assumed		
Cash and cash equivalents	389	389
Trade and other receivables	373	373
Inventories	267	267
Other assets	171	171
Tangible assets	22	22
Intangible assets	6	6
Total assets	**1,228**	**1,228**
Trade and other payables	(169)	(169)
Other liabilities	(143)	(143)
Total liabilities	**(312)**	**(312)**
Total net identifiable assets	**916**	**916**

Goodwill

Goodwill has been recognised as a result of the acquisition as follows:

Total consideration transferred	**4,529**
Non-controlling interest based on their proportionate interest in the recognised amounts of the assets and liabilities of the acquiree	183
Less: Value of net identifiable assets	(916)
Goodwill	**3,796**

Cash consideration transferred	4,529
Cash and cash equivalents acquired	(389)
Net cash outflow arising on acquisition	**4,140**

5. Use of estimates and judgements

Management decides to the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (see note 4).

Key sources of estimation uncertainty

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3.10.

The Bank reviews its loan portfolio to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the profit or loss, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and individual loans. All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed. Other evidence for impairment may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank.

Due to the increase in the consumer loan portfolio of the Bank and the availability of the historical trends of the probability of default, starting from 1 January 2012, the Bank started to provide collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified except for loans and receivables subject to individual assessment for impairment.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3.10. For financial instruments that require varying degrees of judgement depending liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also "Valuation of financial instruments" below.

Critical accounting judgements in applying the Bank's accounting policies

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

Impairment of investment in equity securities

Investments in equity securities are evaluated for impairment on the basis described in accounting policy 3.10.

For an investment in an equity security, a significant or prolonged decline it its fair value below its cost is objective evidence of impairment: In this respect, the Bank regards a decline in fair value in excess of 20 percent to be "significant" and a decline in a quoted market price that persists for nine months or longer to be "prolonged".

5. Use of estimates and judgements *(continued)*

Critical accounting judgements in applying the Bank's accounting policies *(continued)*

Valuation of financial instruments

The Bank's accounting policy on fair value measurements is discussed in accounting policy 3.10.

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

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

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

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

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

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

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

(Currency - In thousands of Turkish Lira ("TL"))

5. Use of estimates and judgements *(continued)*

Critical accounting judgements in applying the Bank's accounting policies *(continued)*

Valuation of financial instruments (continued)

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

At 31 December 2013	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total**
Trading assets	*10*	3,766	2,482	-	6,248
Investment securities – AFS portfolio	*11*	644,789	-	-	644,789
		648,555	**2,482**	**-**	**651,037**
Trading liabilities	*10*	-	(1,475)	-	(1,475)
		-	**(1,475)**	**-**	**(1,475)**

At 31 December 2012	**Note**	**Level 1**	**Level 2**	**Level 3**	**Total**
Trading assets	*10*	551	4,175	-	4,726
Investment securities – AFS portfolio	*11*	571,521	-	-	571,521
		572,072	**4,175**	**-**	**576,247**
Trading liabilities	*10*	-	(3,244)	-	(3,244)
		-	**(3,244)**	**-**	**(3,244)**

Financial asset and liability classification

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

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

(Currency - In thousands of Turkish Lira ("TL"))

6. Financial assets and liabilities

Accounting classification and fair values

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets or valuation techniques. However, the Bank expects no significant difference between the fair value and carrying value of the financial instruments below since most of the financial instruments' maturities are short-term except for the loans and advances to customers and investment securities.

Valuation technique used for determining the fair value of the loans and advances to customers is net present value model. Assumptions and inputs used in net present value model include benchmark interest rates, credit spreads or other premium used in estimating discount rates. The fair value of the investment securities is determined based on the quoted market prices. The objective of valuation technique is to arrive at a fair value determination that reflects the prices of the loans and advances to customers and investment securities at the reporting date that would have been determined by market participants acting at arm's length.

The table below sets out the Bank's classification of each class of financial assets and liabilities and their fair values.

The fair value measurement for fixed rate loans and receivables are calculated by using the discounted cash flow method and has been categorised as a Level 2 fair value based on the inputs to the valuation technique used.

	Note	Trading	Loans and receivables	Available -for-sale	Held–to-maturity	Other amortised cost	Total carrying amount	Fair value
31 December 2013								
Cash and cash equivalents	*8*	-	196,494	-	-	-	196,494	196,494
Trade and other receivables		-	-	-	-	6,157	6,157	6,157
Reserve deposits at Central Bank	*9*	-	299,299	-	-	-	299,299	299,299
Trading assets	*10*	6,248	-	-	-	-	6,248	6,248
Loans and advances to customers	*12*	-	3,580,143	-	-	-	3,580,143	3,432,959
Investment securities – AFS	*11*	-	-	644,789	-	-	644,789	644,789
		6,248	**4,075,936**	**644,789**	**-**	**6,157**	**4,733,130**	**4,585,946**
Trading liabilities	*10*	1,475	-	-	-	-	1,475	1,475
Trade and other payables		-	-	-	-	7,177	7,177	7,177
Financial lease liabilities		-	-	-	-	32,229	32,229	32,229
Obligations under rep. agr.	*18*	-	-	-	-	538,404	538,404	538,404
Debt securities issued	*20*	-	-	-	-	2,004,194	2,004,194	2,004,194
Funds borrowed	*19*	-	-	-	-	1,098,274	1,098,274	1,098,274
		1,475	**-**	**-**	**-**	**3,680,278**	**3,681,753**	**3,681,753**

	Note	Trading	Loans and receivables	Available -for-sale	Held–to-maturity	Other amortised cost	Total carrying amount	Fair value
31 December 2012								
Cash and cash equivalents	*8*	-	376,119	-	-	-	376,119	376,119
Reserve deposits at Central Bank	*9*	-	151,602	-	-	-	151,602	151,602
Trading assets	*10*	4,726	-	-	-	-	4,726	4,726
Loans and advances to customers	*12*	-	2,366,560	-	-	-	2,366,560	2,366,615
Investment securities – AFS	*11*	-	-	571,521	-	-	571,521	571,521
		4,726	**2,894,281**	**571,521**	**-**	**-**	**3,470,528**	**3,470,583**
Trading liabilities	*10*	3,244	-	-	-	-	3,244	3,244
Obligations under rep. agr.	*18*	-	-	-	-	398,586	398,586	398,586
Debt securities issued	*20*	-	-	-	-	1,501,596	1,501,596	1,501,596
Funds borrowed	*19*	-	-	-	-	524,015	524,015	524,015
		3,244	**-**	**-**	**-**	**2,424,197**	**2,427,441**	**2,427,441**

(Currency - In thousands of Turkish Lira ("TL"))

7. Segment reporting

The Bank is operating mainly in retail banking, corporate banking and investment banking.

31 December 2013	**Retail banking**	**Corporate banking**	**Investment banking**	**Other**	**Total**
Operating income	**165,732**	**426,177**	**51,006**	**-**	**642,915**
Undistributed costs[(1)]	(56,166)	(66,493)	(15,680)	(335,752)	(474,091)
Income from subsidiaries	-	-	-	(6,662)	(6,662)
Profit before tax	109,566	359,684	35,326	(342,414)	162,162
Tax provision	-	-	-	(36,765)	(36,765)
Profit after tax	109,566	359,684	35,326	(379,179)	125,397
Net profit	**109,566**	**359,684**	**35,326**	**(379,179)**	**125,397**
Total assets	**1,529,199**	**2,085,247**	**1,139,884**	**337,027**	**5,091,357**
Total liabilities and equity	**669,208**	**1,712,855**	**1,636,657**	**1,072,637**	**5,091,357**
Other segment items					
Capital investment[(2)]	-	-	-	-	204,741
Depreciation[(2)]	-	-	-	-	12,682
Impairment losses[(2)]	-	-	-	-	-

(1) Costs that cannot be allocated according to consistent base.
(2) Other segment costs could not be distributed.

31 December 2012	**Retail banking**	**Corporate banking**	**Investment banking**	**Other**	**Total**
Operating income	**90,574**	**285,733**	**45,611**	**-**	**421,918**
Undistributed costs[(1)]	(55,895)	(85,963)	-	(162,352)	(304,210)
Income from subsidiaries	-	-	-	-	-
Profit before tax	34,679	199,770	45,611	(162,352)	117,708
Tax provision	-	-	-	(22,664)	(22,664)
Profit after tax	34,679	199,770	45,611	(185,016)	95,044
Net profit	**34,679**	**199,770**	**45,611**	**(185,016)**	**95,044**
Total assets	**643,509**	**1,723,051**	**1,103,968**	**47,067**	**3,517,595**
Total liabilities and equity	**577,710**	**1,444,732**	**925,845**	**569,308**	**3,517,595**
Other segment items					
Capital investment[(2)]	-	-	-	-	11,121
Depreciation[(2)]	-	-	-	-	4,702
Impairment losses[(2)]	-	-	-	-	10,003

(1) Costs that cannot be allocated according to consistent base.
(2) Other segment costs could not be distributed.

(Currency - In thousands of Turkish Lira ("TL"))

8. Cash and cash equivalents

	31 December 2013	**31 December 2012**
Cash and balances with Central Bank	113,621	359,964
- Cash on hand	*4,912*	*15,144*
- Unrestricted balances with Central Bank	*108,709*	*344,820*
Placements with other banks	82,873	16,155
Cash and cash equivalents in the statement of financial position	**196,494**	**376,119**
Less: Interest income accruals on cash and cash equivalents	(61)	(11)
Cash and cash equivalents in the statement of cash flows	**196,433**	**376,108**

9. Reserve deposits at Central Bank

	31 December 2013	**31 December 2012**
Foreign currency	299,299	151,602
	299,299	**151,602**

According to the regulations of the Central Bank of Turkish Republic (the "Central Bank"), banks are obliged to reserve a portion of certain liability accounts as specified in the related decree. Such mandatory reserves are not available for use in the Bank's day to day operations.

The banks operating in Turkey keep reserve deposits for Turkish currency and foreign currency liabilities in TL and USD or EUR at the rates of 5-11.5% and 6-13%, respectively according to their maturity terms as per the Communiqué no. 2005/1 "Reserve Deposits" of the Central Bank of Turkey (31 December 2012: 8-11% for TL and 9-11% for USD or EUR).

As at 31 December 2013 and 2012, TL reserve deposits and foreign currency reserve deposits are non-interest earning.

(Currency - In thousands of Turkish Lira ("TL"))

10. Trading assets and liabilities

Trading assets

	31 December 2013	31 December 2012
Trading securities		
- Government bonds and treasury bills	-	-
- Investment funds	3,766	551
Derivative assets		
- Foreign exchange	2,482	4,175
-Swap contracts	*35*	*51*
-Forward contracts	*2,407*	*4,122*
-Options	*40*	*2*
	6,248	**4,726**

Trading liabilities

	31 December 2013	31 December 2012
Derivative liabilities		
- Foreign exchange	1,475	3,244
-Swap contracts	*-*	*150*
-Forward contracts	*1,421*	*3,092*
-Options	*54*	*2*
	1,475	**3,244**

As at 31 December 2013 and 2012, no trading securities are kept for legal requirements and as a guarantee for stock exchange and money market operations.

As at 31 December 2013 and 2012, no trading debt securities pledged under repurchase agreements.

As at 31 December 2013 and 2012, all trading debt securities have fixed interest rates.

On the reporting date, the total notional amount of outstanding forward foreign exchange contracts to which the Bank is committed are as follows:

	31 December 2013	31 December 2012
Forward foreign exchange contracts – buy (*)	273,303	542,969
Forward foreign exchange contracts – sell (*)	277,386	542,189
Swap foreign exchange contracts – buy	19,209	44,732
Swap foreign exchange contracts – sell	19,213	44,834
Option contracts-buy	85,435	3,558
Option contracts-sell	85,435	3,558

(*) Includes spot and forward transactions

(Currency - In thousands of Turkish Lira ("TL"))

11. Investment securities

	31 December 2013			31 December 2012
	Interest rate %	**Latest maturity**	**Carrying amount**	**Carrying amount**
Held-to-maturity investment securities				
- Corporate bonds	-	-	-	-
Available-for-sale investment securities				
- Government bonds	3.69-9.50	15-Jan-30	626,260	571,521
- Corporate bonds	6.69-13.58	04-Jan-16	18,529	-
			644,789	**571,521**

As at 31 December 2013, TL 20,375 and TL 565,501 of investment securities is given as collateral for performing transaction at stock exchange and repurchase agreement, respectively (31 December 2012: TL 77,009 and TL 431,617, respectively).

As at 31 December 2013, TL 18,516 investment securities are blocked for asset backed securitisation funds (31 December 2012: TL 14,516).

12. Loans and advances to customers

As at 31 December 2013 and 2012, all loans and advances to customers are at amortised cost.

	Gross amount	**Impairment allowance**	**Carrying amount**	**Gross amount**	**Impairment allowance**	**Carrying amount**
	31 December 2013			**31 December 2012**		
Corporate customers:						
- Finance leases	1,252	-	1,252	1,542	-	1,542
- Other lending	3,641,220	(62,329)	3,578,891	2,383,931	(18,913)	2,365,018
Corporate loans	*2,087,244*	*(36,443)*	*2,050,801*	*1,730,420*	*(6,796)*	*1,723,624*
Consumer loans	*1,553,440*	*(25,886)*	*1,527,554*	*652,692*	*(12,117)*	*640,575*
Factoring receivables	*536*	*-*	*536*	*819*	*-*	*819*
	3,642,472	**(62,329)**	**3,580,143**	**2,385,473**	**(18,913)**	**2,366,560**

As at 31 December 2013 TL 1,151,451 (31 December 2012: TL 638,967) of loan and advances to customers are expected to be recovered more than 12 months after the reporting date.

(Currency - In thousands of Turkish Lira ("TL"))

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

Allowance for impairment

	31 December 2013	31 December 2012
Specific allowances for impairment		
Balance on 1 January	16,001	8,953
Impairment loss for the year	38,144	7,048
- Charge for the year	43,537	8,250
- Recoveries	(5,393)	(1,202)
Balance on 31 December	**54,145**	**16,001**
Collective allowances for impairment		
Balance on 1 January	**2,912**	**-**
Impairment loss for the year	5,272	2,912
- Charge for the year	5,272	2,912
Balance on 31 December	**8,184**	**2,912**
Total allowances for impairment	**62,329**	**18,913**

Finance lease receivables

Loans and advances to customers include the following finance lease receivables.

	31 December 2013	31 December 2012
Gross investment in finance leases, receivable:		
- Less than one year	-	-
- Between one and five years	1,359	1,752
	1,359	**1,752**
Unearned future income on finance leases	(107)	(210)
Net investment in finance leases	**1,252**	**1,542**
The net investment in finance leases comprises:		
- Less than one year	-	-
- Between one and five years	1,252	1,542
Net investment in finance leases	**1,252**	**1,542**

(Currency - In thousands of Turkish Lira ("TL"))

13. Equity accounted investees

Carrying amount of equity accounted investees is summarized below:

	31 December 2013	31 December 2012
Kazakhstan Ijara Company Jsc.	8,475	-
İstanbul Finans Merkezi	100	-
Aktif Yatırım Bankası Sukuk Varlık Kiralama A.Ş.(*)	100	-
Equity accounted investees	**8,675**	**-**

(*)Aktif Bank Sukuk Varlık Kiralama A.Ş. ("VKŞ") engages in the operating activities of issuance of Sukuk. According to IFRS 10, the Company shall have the major effect on the financial statements of the parent company. On the other hand, VKŞ does not have the major effect on the founder of Parent Bank's financial statements required to be consolidated power, variable power and variable returns to affect returns in order to considered in the consolidation. VKŞ does not comply with consolidation requirements of IFRS 10. Thus it is not being consolidated in the financial statements as at 31 December 2013.

The Group's share of income in its equity accounted investees for the year ended 31 December 2013 is TL (191) (31 December 2012: None).

Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by the Group is as follows:

2013	Ownership (%)	Total assets	Total liabilities	Profit / (loss) in the year
Kazakhstan Ijara Company Jsc.	14.31	59,224	-	568
İFM İstanbul Finans Merkezi İnşaat Taahhüt A.Ş.	5	238,528	243,970	(6,389)
Aktif Yatırım Bankası Sukuk Varlık Kiralama A.Ş.	100	206,381	206,265	16
		504,133	**450,235**	**(5,805)**

14. Goodwill

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amount of the investment is usually determined from the independent valuation report. For the valuation, estimates of discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the investments are taken into account.

An analysis of goodwill as at 31 December 2013 and 2012 is as follows:

	31 December 2013	31 December 2012
Balance as at 1 January	**-**	**-**
Additions (Note 4)	3,796	-
Effect of movements in exchange rates	-	-
Impairment	-	-
Balance as at 31 December	**3,796**	**-**

(Currency - In thousands of Turkish Lira ("TL"))

15. Tangible assets

	Machinery and equipment	Furniture and fixtures	Leasehold improvements	Motor vehicles	Work in progress(*)	Other fixed assets	Total
Cost							
Balance on 1 January 2012	4,809	1,999	3,020	32	-	585	10,445
Additions	3,170	311	650	-	-	274	4,405
Disposals	-	-	-	-	-	(142)	(142)
Balance on 31 December 2012	**7,979**	**2,310**	**3,670**	**32**	**-**	**717**	**14,708**
Balance on 1 January 2013	7,979	2,310	3,670	32	-	717	14,708
Acquisitions from subsidiaries (Note 4)	11,291	649	-	-	-	5,397	17,337
Additions	22,077	3,134	-	-	104,819	35,382	165,412
Disposals	-	-	-	-	-	(69)	(69)
Balance on 31 December 2013	**41,347**	**6,093**	**3,670**	**32**	**104,819**	**41,427**	**197,388**
Depreciation and impairment							
Balance on 1 January 2012	2,526	1,400	1,666	1	-	137	5,730
Depreciation for the year	1,019	300	487	5	-	96	1,907
Disposals	(6)	-	-	-	-	(38)	(44)
Balance on 31 December 2012	**3,539**	**1,700**	**2,153**	**6**	**-**	**195**	**7,593**
Balance on 1 January 2013	3,539	1,700	2,153	6	-	195	7,593
Acquisitions from subsidiaries (Note 4)	-	-	-	-	-	-	-
Depreciation for the year	5,931	1,202	650	1	-	62	7,846
Disposals	-	-	-	-	-	(1)	(1)
Balance on 31 December 2013	**9,470**	**2,902**	**2,803**	**7**	**-**	**256**	**15,438**
Carrying amounts							
Balance on 1 January 2012	2,283	599	1,354	31	-	448	4,715
Balance on 31 December 2012	4,440	610	1,517	26	-	522	7,115
Balance on 31 December 2013	31,877	3,191	867	25	104,819	41,171	181,950

(*) Work in progress includes buildings under construction.

There is no capitalised borrowing costs related to the acquisition of the tangible assets during the year (2012: None).

(Currency - In thousands of Turkish Lira ("TL"))

16. Intangible assets

	Software	Development costs	Total
Cost			
Balance on 1 January 2012	7,737	13,196	20,933
Additions	2,853	-	2,853
Internally developed	-	3,863	3,863
Balance on 31 December 2012	**10,590**	**17,059**	**27,649**
Balance on 1 January 2013	10,590	17,059	27,649
Acquisitions from subsidiaries (Note 4)	-	5,076	5,076
Additions	8,996	843	9,839
Internally developed	-	7,162	7,162
Balance on 31 December 2013	**19,586**	**30,140**	**49,726**
Amortisation			
Balance on 1 January 2012	3,133	2,133	5,266
Amortisation for the year	570	2,225	2,795
Balance on 31 December 2012	**3,703**	**4,358**	**8,061**
Balance on 1 January 2013	3,703	4,358	8,061
Acquisitions from subsidiaries	-	-	-
Amortisation for the year	836	4,000	4,836
Balance on 31 December 2013	**4,539**	**8,358**	**12,897**
Carrying amounts			
Balance on 1 January 2012	4,604	11,063	15,667
Balance on 31 December 2012	6,887	12,701	19,588
Balance on 31 December 2013	15,047	21,782	36,829

There is no capitalised borrowing costs related to the internally development of software during the year (2012: None).

17. Other assets

	31 December 2013	31 December 2012
Assets held for sale	70,121	-
VFF service fee accrual	16,000	-
Guarantees given(*)	-	9,350
Transitory accounts	6,257	2,266
Prepaid expenses	6,918	1,929
Receivables from clearing house	118	78
Advances given	5,065	26
Others	13,423	2,602
	117,902	**16,251**

(*) This balance consist of the guarantees given for the Bank's asset backed securitisation fund named Aktif Yatırım Bankası A.Ş (1) No'lu Varlık Finansman Fonu.

(Currency - In thousands of Turkish Lira ("TL"))

18. Obligations under repurchase agreements

	31 December 2013	31 December 2012
Obligations under repurchase agreements-TL	521,367	386,730
Obligations under repurchase agreements-FC	17,037	11,856
	538,404	**398,586**

19. Funds borrowed

	31 December 2013	31 December 2012
Domestic banks – TL	258,364	20,043
Domestic banks – Foreign currency	239,568	105,819
Foreign banks – TL	10,415	115,011
Foreign banks – Foreign currency	589,927	283,142
	1,098,274	**524,015**

As at 31 December 2013, total balance of funds borrowed is expected to be settled in less than 12 months after the reporting date (31 December 2012: TL 17,837 was expected to be settled in more than 12 months after the reporting date).

20. Debt securities issued

As at 31 December 2013 and 2012, all debt securities issued are at amortised cost.

	31 December 2013	31 December 2012
Debt securities issued-TL	1,742,319	1,343,932
Debt securities issued-FC	261,875	157,664
	2,004,194	**1,501,596**

	31 December 2013	31 December 2012
Nominal of debt securities issued	2,075,900	1,569,780
Unaccrued interest expense	(71,706)	(68,184)
	2,004,194	**1,501,596**

In 2013, the Bank issued TL debt securities with maturities between 2 January 2014 and 20 November 2014 (2012: 2 January 2013 - 18 December 2013). The interest rate for TL debt securities is between 7.70%-11.50% (2012: 8.33%-13.00%).

(Currency - In thousands of Turkish Lira ("TL"))

20. Debt securities issued *(continued)*

In 2013, the Bank issued USD denominated debt securities with maturities between 3 January 2014 and 16 May 2014 (2012: 3 January 2013 - 3 July 2013). The interest rate for foreign currency debt securities is between 3.20%-5.25% (2012: 3.40%-5.00%).

In 2013, the Bank issued EUR denominated debt securities with maturities between 3 January 2014 and 11 August 2014 (2012: 14 January 2013 - 3 July 2013). The interest rate for foreign currency debt securities is between 3.50%-6.37% (2012: 3.75%-4.75%).

21. Taxation

General information

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

In Turkey, effective from 1 January 2006 corporate tax rate is 20%. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts which are calculated and paid are offset against the final corporate tax liability for the year.

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

As at 31 December 2013 and 2012, the current tax liability is as follows:

	31 December 2013	31 December 2012
Income tax liability	34,952	27,704
Prepaid taxes	(26,161)	(18,505)
Income taxes payable	**8,791**	**9,199**

For the year ended 31 December 2013 and 2012, the income tax expense recognised in profit or loss and income tax recognised directly in equity are as follows:

Recognised in profit or loss

	2013	2012
Current tax expense from continuing operations	(36,684)	(24,922)
Deferred tax from continuing operations	(81)	2,258
- Origination and reversal of temporary differences	*(81)*	*2,258*
Total income tax	**(36,765)**	**(22,664)**

(Currency - In thousands of Turkish Lira ("TL"))

21. Taxation *(continued)*

Income tax recognised directly in equity

	31 December 2013	31 December 2012
Available-for-sale investment securities and Actuarial gain/loss		
- Deferred tax	8,918	(1,101)
- Current tax	(3,916)	(2,702)
	5,002	**(3,803)**

Reconciliation of effective tax rate

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate of the Bank for the year ended 31 December 2013 and 2012 is as follows:

	2013	Rate %	2012	Rate %
Profit for the year	125,397		95,044	
Total income tax expense	36,765		22,664	
Profit before income tax	**162,162**		**117,708**	
Income tax using the domestic corporation tax rate 20%	(32,432)	(20.00)	(23,542)	(20.00)
Non-deductible expenses	(604)	(0.36)	(219)	(0.18)
Tax exempt income	(3,729)	(2.30)	1,097	0.93
Total income tax in the profit or loss	**(36,765)**	**(22.65)**	**(22,664)**	**(19.25)**

Deferred tax

Recognised deferred tax assets and liabilities

The deferred tax included in the statement of financial position and recognised in profit or loss and in equity are as follows:

	31 December 2013			31 December 2012		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Available-for-sale investment securities	319	-	319	-	(640)	(640)
Held-to-maturity investment securities	-	-	-	-	-	-
Derivative financial instruments	295	(496)	(201)	649	(835)	(186)
Retirement pay liability	354	-	354	70	-	70
Unused vacation liability	438	-	438	303	-	303
Tangible assets and intangible assets	-	(1,043)	(1,043)	-	(284)	(284)
Bonus provision	3,528	-	3,528	2,663	-	2,663
Unearned income commissions	224	-	224	1,267	-	1,267
Other	1,637	(138)	1,499	920	-	920
Deferred tax assets	**6,795**	**(1,677)**	**5,118**	**5,872**	**(1,759)**	**4,113**

(Currency - In thousands of Turkish Lira ("TL"))

21. Taxation *(continued)*

Deferred tax *(continued)*

Recognised in the statement of financial position as follows:

	31 December 2013	31 December 2012
Deferred tax assets	5,118	4,113
	5,118	**4,113**

Movements in temporary differences during the year

31 December 2013	Opening balance	Recognised in profit or loss	Recognised in equity	Closing balance
Available-for-sale investment securities	(640)	(160)	1,119	319
Held-to-maturity investment securities	-	-	-	-
Derivative financial instruments	(186)	(15)	-	(201)
Retirement pay liability	70	284	-	354
Unused vacation liability	303	135	-	438
Tangible assets and intangible assets	(284)	(759)	-	(1,043)
Bonus provision	2,663	865	-	3,528
Unearned income commissions	1,267	(1,043)	-	224
Other	920	579	-	1,499
	4,113	**(114)**	**1,119**	**5,118**

31 December 2012	Opening balance	Recognised in profit or loss	Recognised in equity	Closing balance
Available-for-sale investment securities	549	(88)	(1,101)	(640)
Held-to-maturity investment securities	33	(33)	-	-
Derivative financial instruments	(80)	(106)	-	(186)
Retirement pay liability	22	48	-	70
Unused vacation liability	223	80	-	303
Tangible assets and intangible assets	(252)	(32)	-	(284)
Bonus provision	2,320	343	-	2,663
Unearned income commissions	-	1,267	-	1,267
Other	141	779	-	920
	2,956	**2,258**	**(1,101)**	**4,113**

(Currency - In thousands of Turkish Lira ("TL"))

22. Provisions

	31 December 2013	31 December 2012
Provision for possible losses(*)	32,000	25,000
Bonus provision	17,639	13,316
Vacation pay liability	2,465	1,513
Employee termination benefits	1,771	351
Provision for non-cash loans	2	2
Other	177	-
Total	**54,054**	**40,182**

(*)As at 31 December 2013, the accompanying consolidated statement of financial position includes a general provision amounting to TL 32,000 provided by the Bank management in line with conservatism principle considering the circumstances which may arise from any changes in the economy or market conditions.

Employee termination benefits

In accordance with existing social legislation in Turkey, the Bank is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL 3.25 and TL 3.03 on 31 December 2013 and 2012, respectively) per year of employment at the rate of pay applicable on the date of retirement or termination. In the consolidated financial statements as at 31 December 2013 and 2012, the Bank reflected a liability calculated using the hypothetical method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds on the reporting date.

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

	31 December 2013	31 December 2012
Discount rate	3.29%	2.38%

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

	31 December 2013	31 December 2012
Opening balance	351	112
Interest cost	86	16
Service cost	1,584	85
Payment during the year	(84)	(88)
Actuarial difference	(166)	226
Balance at the end of the year	**1,771**	**351**

(Currency - In thousands of Turkish Lira ("TL"))

23. Other liabilities

	31 December 2013	31 December 2012
Customer accounts [(*)]	456,383	523,758
Transitory accounts	13,728	17,081
Cash collaterals received	13,919	10,670
Guarantees given	-	9,350
Unearned income	2,312	7,981
Taxes and due payable	10,954	5,378
Expense accrual	4	2,247
Payables to clearing house	128	1,298
Payables to compulsory government funds	2,591	1,039
Other	12,486	3,679
	512,505	**582,481**

[(*)] The Bank is not entitled to collect deposits. The customer accounts represent the current balances of loan customers. As at 31 December 2013 there are no time customer accounts (31 December 2012: None).

24. Capital and reserves

	31 December 2013	31 December 2012
Number of common shares, TL 1,000 (in full TL), par value (Authorised and issued)	697,085	230,000

As at 31 December 2013, all issued shares are fully paid and there is no preference shares assigned to shareholders of the Bank.

Share capital and share premium

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

	31 December 2013		31 December 2012	
	Amount	**%**	**Amount**	**%**
Çalık Holding A.Ş.	693,074	99.42	227,688	98.99
GAP Güneydoğu Tekstil San. ve Tic. A.Ş.	2,123	0.30	1,224	0.53
Ahmet Çalık	944	0.14	544	0.24
Başak Enerji Elektrik Üretim San. ve Tic. A.Ş.	472	0.07	272	0.12
Irmak Enerji Elektrik Üretim Madencilik San. ve Tic. A.Ş.	472	0.07	272	0.12
Total paid-in-capital	**697,085**	**100.00**	**230,000**	**100.00**
Restatement effect per IAS 29	4,510		5,448	
Total share capital	**701,595**		**235,448**	

The paid in capital has been increased by TL 357,085 and TL 110,000 on 21 June 2013 and 15 November 2013 respectively. The capital increase amounting to TL 298,000 has been paid in cash by Çalık Holding A.Ş. and remaining increase has been provided by internal sources (31 December 2012:None).

24. Capital and reserves *(continued)*

Reserves

Fair value reserve

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

Other reserves

Other reserves consist of legal reserves and other restricted reserves.

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted. In the accompanying consolidated financial statements, the total of the legal reserves are amounting to TL 11,279 (31 December 2012: TL 6,931).

According to the Corporate Tax Law, 75% of the capital gains arising from the sale of tangible assets and investments owned for at least two years are exempted from corporate tax on the condition that such gains are reflected in the other restricted reserves in equity with the intention to be utilised in a share capital increase within five years from the date of the sale. The remaining 25% of such capital gains are subject to corporate tax. As at 31 December 2011, the Bank has transferred a gain from sale of investment amounting to TL 25,660 to the other restricted reserves in equity.

Foreign currency translation reserve

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

Transactions under common control

100% of E-Post was acquired from parents of the Company in the current year. The acquired subsidiary, E-Post could be treated as an integrated operation of E-Kent by nature or by transfer of knowledge, were under common control with E-Kent since the beginning of their operations. The acquisition of this entity being under common control is accounted for using book values, where in its consolidated financial statements the acquirer, is permitted, but not required, to restate its comparatives as if the combination had been in existence throughout the reporting periods presented. This application is based on the management judgment that this treatment is the best way to present the economic substance of the transaction since the transaction is moving the shares of one party from one part of the group to another, there is no independent third party involvement and in particular the purchase price is not determined on an arm's length basis. Management decided not to restate its comparative information.

Excess of net assets over cash paid is recognised in "Transactions under common control" directly in equity.

(Currency - In thousands of Turkish Lira ("TL"))

25. Net interest income

	2013	2012
Interest income		
Loans and advances to customers[1]	468,149	286,594
Investment securities	45,552	41,620
Cash and cash equivalents	1,010	3,248
Other	295	348
Total interest income	**515,006**	**331,810**
Interest expense		
Debt issued	165,056	141,858
Funds borrowed	33,529	23,708
Money market transactions	31,579	21,239
Other	13,330	2,257
Total interest expense	**243,494**	**189,062**
Net interest income	**271,512**	**142,748**

(1) Includes interest income from factoring receivables.

26. Net fee and commission income

	2013	2012
Fees and commission income		
Remittance fee	7,020	6,512
Financial guarantee contracts issued	13,557	12,724
Intermediary commissions	4,719	15,683
Insurance fee	40,325	14,930
VFF service fee	16,071	-
Commitment fee	7,613	-
Other	8,878	9,533
Total fees and commission income	**98,183**	**59,382**
Fees and commission expense		
Financial guarantee contracts issued	721	-
Other	19,072	11,614
Total fees and commission expense	**19,793**	**11,614**
Net fees and commission income	**78,390**	**47,768**

27. Net trading income

	2013	2012
Foreign exchange gain	5,361	6,945
Fixed income	711	2,086
Gain/(loss) from derivative financial instruments	(15,420)	(5,977)
Total	**(9,348)**	**3,054**

(Currency - In thousands of Turkish Lira ("TL"))

28. Other income

	2013	2012
Gain on sale of assets	21,619	19,119
Reversal of general provision	32	5,000
VFF profit sharing	1,840	-
Other	2,254	3,553
Total	**25,745**	**27,672**

29. Net impairment on financial assets

	2013	2012
Specific provision for loans	38,144	7,048
Collective impairment provision for loans	5,272	2,912
Provision for non-cash loans	-	-
Other	-	43
Total	**43,416**	**10,003**

30. Personnel expenses

	2013	2012
Wages and salaries	54,139	35,974
Bonus provision	22,526	12,625
Compulsory social security obligations	5,415	3,331
Employee termination indemnity and vacation pay liability	2,536	728
Other	4,379	3,134
Total	**88,995**	**55,792**

31. Administrative expenses

	2013	2012
Taxes and dues other than on income	9,298	4,381
Consultancy expenses	7,248	1,761
Rent expenses	5,629	4,482
Expenses on vehicles	4,830	2,680
Communication expenses	2,849	2,142
Software maintenance expenses	2,749	1,149
Representation expenses	2,283	974
Travelling expenses	2,031	1,397
Publicity expenses	2,003	2,856
Maintenance expenses	617	138
Reuters expenses	512	459
Subscription expenses	364	149
Others	3,384	949
Total	**43,797**	**23,517**

(Currency - In thousands of Turkish Lira ("TL"))

32. Other operating expenses

	2013	2012
Provision for possible losses	7,000	-
Other	17,758	9,520
Total	**24,758**	**9,520**

33. Related parties

Parent and ultimate controlling party

The Bank is controlled by Çalık Holding A.Ş. which owns 99.42% of ordinary shares (31 December 2012: 98.99%).

Compensation of key management personnel of the Bank

Total salaries and other benefits paid to the Board of Members and top management during the year is TL 13,635 (31 December 2012: TL 10,658).

Balances with related parties

31 December 2013	Related party balances	Total balance	Rate (%)
Loans and advances to customers	1,842,279	3,580,143	51.46
Other liabilities (Customer accounts)	11,101	456,383	2.43
Debt securities issued	-	2,004,194	-

31 December 2012	Related party balances	Total balance	Rate (%)
Loans and advances to customers	1,275,177	2,366,560	53.88
Other liabilities (Customer accounts)	13,786	523,758	2.63
Debt securities issued	41,152	1,501,596	2.74

Off statement of financial position balances with related parties

31 December 2013	Related party balances	Total balance	Rate (%)
Non-cash loans	574,456	993,470	57.82

31 December 2012	Related party balances	Total balance	Rate (%)
Non-cash loans	665,036	1,135,133	58.59

(Currency - In thousands of Turkish Lira ("TL"))

33. Related parties *(continued)*

Transactions with related parties

	2013	2012
Interest income on loans	252,270	142,076
Fee and commission income	8,348	7,809
Rent expenses	3,582	3,386
Accommodation expenses	2,812	1,697

34. Commitments and contingencies

	31 December 2013	31 December 2012
Letters of guarantee	911,639	1,029,256
Letters of credit	47,154	80,501
Acceptance credits	583	459
Other guarantees	34,094	24,917
Total non-cash loans	**993,470**	**1,135,133**
Check limits	1,470	2,449
Other commitments	2,083,507	1,534,149
Total	**3,078,447**	**2,671,731**

35. Subsequent events

None.