TÜRK EKONOMİ BANKASI ANONİM ŞİRKETİ

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Türk Ekonomi Bankası A.Ş.

1. We have audited the accompanying consolidated financial statements of Türk Ekonomi Bankası A.Ş. ("the Bank") and its subsidiaries which comprise the consolidated balance sheet as of 31 December 2013 and consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

2. 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.

Auditor's responsibility

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

   An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's 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, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

4. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Türk Ekonomi Bankası A.Ş. and its subsidiaries as of 31 December 2013, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Başaran Nas Bağımsız Denetim ve
Serbest Muhasebeci Mali Müşavirlik A.Ş.
a member of
PricewaterhouseCoopers

Zeynep Uras, SMMM
Partner

Istanbul, 4 March 2014

INDEX

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

CONSOLIDATED BALANCE SHEET

	Notes	31 December 2013	31 December 2012
ASSETS			
Cash and balances with central banks	4	6,982,809	4,710,334
Loans and receivables due from banks	4	2,008,553	1,871,772
Other money market placements	4	245	1,700,525
Financial assets at fair value through profit and loss	5,17	1,384,117	639,005
Derivatives used for hedging purposes	17	112,245	16,883
Available-for-sale financial assets	5	4,408,885	4,308,832
Loans and receivables	6	37,464,109	29,487,668
Remeasurement adjustment on interest rate risk hedged portfolios		3,404	16,309
Held-to-maturity investments	5	292,956	20,416
Factoring receivables	7	1,093,443	753,606
Premises and equipment	8	332,957	256,273
Intangible assets	9	55,700	25,012
Goodwill	10	420,645	420,645
Deferred tax asset	16	116,617	196,526
Other assets	11	1,132,341	1,123,608
Total assets		**55,809,026**	**45,547,414**
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits from other banks	12	1,635,572	931,786
Customers' deposits	12	33,897,574	29,028,148
Other money market deposits	12	1,062,443	40,916
Financial liabilities at fair value through profit and loss	17	482,831	234,815
Derivatives used for hedging purposes	17	69,438	168,507
Factoring payables		8,012	3,988
Marketable securities issued	13	710,276	494,237
Funds borrowed:			
- Subordinated debt	14	1,770,856	1,032,310
- Other funds borrowed	14	8,010,241	6,036,987
Other liabilities	15	2,125,541	2,119,718
Provisions	15	197,194	204,911
Income taxes payable	16	15,168	69,576
Total liabilities		**49,985,146**	**40,365,899**
EQUITY			
Equity attributable to equity holders of the parent			
Share capital issued	18	2,204,390	2,204,390
Premium in excess of par		2,565	2,565
Adjustment to share capital	18	200,262	200,262
Unrealized gains/(losses) on available-for-sale investments, net of tax	19	(102,440)	55,945
Reserve for hedging funds	19	32,185	(49,666)
Actuarial gains/(losses) on employee benefits		8,354	(10,967)
Other reserves and retained earnings	19	3,470,574	2,771,284
		5,815,890	5,173,813
Non-controlling interest		7,990	7,702
Total equity		**5,823,880**	**5,181,515**
Total liabilities and equity		**55,809,026**	**45,547,414**

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

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

CONSOLIDATED STATEMENT OF INCOME

	Notes	1 January-31 December 2013	1 January-31 December 2012
Interest income			
Interest on loans and receivables		3,712,389	3,577,658
Interest on securities		364,175	405,190
-Interest on Available for Sale		292,347	341,154
-Interest on Held for Trading		63,463	62,927
-Interest on Held to Maturity		8,365	1,109
Interest on loans and receivables due from banks		62,309	34,643
Interest on other money market placements		10,936	49,504
Interest income on hedging derivatives		127,336	114,304
Other interest income		15	-
Total interest income		**4,277,160**	**4,181,299**
Interest expense			
Interest on customer deposits		(1,729,382)	(1,753,592)
Interest on other money market deposits		(44,518)	(42,284)
Interest on marketable securities issued		(32,288)	(37,311)
Interest on funds borrowed and deposits from other banks		(266,269)	(324,224)
Interest on hedging derivatives		(187,055)	(152,992)
Total interest expense		**(2,259,512)**	**(2,310,403)**
Net interest income		**2,017,648**	**1,870,896**
Fees and commissions and other operating income			
Fees and commissions income	25	1,057,283	976,061
Fees and commissions expenses	25	(383,105)	(387,892)
Net loss on financial instruments at fair value through profit or loss	24	23,611	(51,869)
Gains less losses on investment securities		98,924	13,117
Net (loss)/gain from other activities		(51,636)	(148)
Net banking income		**2,762,725**	**2,420,165**
Operating expenses			
Salaries and employee benefits	22	(860,853)	(776,364)
Other operating expenses	23	(584,436)	(514,377)
Depreciation and amortization	8,9	(85,441)	(82,804)
Taxes other than on income		(79,971)	(74,358)
Gross operating income		**1,152,024**	**972,262**
Provisions for impairment on loan, lease and factoring receivables, net of recoveries	6,7	(351,841)	(249,204)
Net operating income		**800,183**	**723,058**
Gain/(loss) on sale of fixed assets, net		1,202	7,146
Profit from operating activities before income tax		**801,385**	**730,204**
Income tax – current	16	(66,319)	(253,432)
Income tax – deferred	16	(93,217)	105,971
Net profit for the year from continuing operations		**641,849**	**582,743**
Attributable to :			
Equity holders of the Parent		640,121	581,202
Non-controlling interest		1,728	1,541
Net profit for the year		**641,849**	**582,743**
Basic earnings per share (full TL)	20	0.2912	0.2644
Diluted earnings per share (full TL)	20	0.2912	0.2644

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

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	1 January- 31 December 2013	1 January- 31 December 2012
Profit for the year	**641,849**	**582,743**
Other comprehensive income		
Fair value gains on available-for-sale financial assets, net of tax	(158,428)	161,267
Net change in fair values	(86,396)	164,083
Net amount transferred to income	(72,032)	(2,816)
Cash flow hedge (Effective portion of changes in fair value), net of tax	81,851	(54,171)
Currency translation differences	59,169	(9,177)
Change in actuarial gains on employee benefits, net of tax	19,321	(10,967)
Other comprehensive (loss)/income for the period, net of tax	**1,913**	**86,952**
Total comprehensive income for the year	**643,762**	**669,695**
Attributable to:		
Equity holders of the Parent	642,077	668,113
Non-controlling interest	1,685	1,582
Total comprehensive income for the year	**643,762**	**669,695**

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CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

		Attributable to equity holders of the Parent										Non-controlling Interest	Total equity
	Notes	Share capital	Premium in excess of par	Adjustment to share capital	Other capital reserves	Unrealized gains/(losses) on available-for-sale investments, net of tax	Reserve for hedging funds	Currency translation reserve	Actuarial gain/loss on employee benefits	Legal reserves and retained earnings	Total equity attributable to equity holders of the Parent		
At 1 January 2012		**2,204,390**	**2,565**	**200,262**	**1,084,258**	**(105,281)**	**4,505**	**39,450**	**-**	**1,075,551**	**4,505,700**	**13,019**	**4,518,719**
Dividend paid		-	-	-	-	-	-	-	-	-	-	(6,899)	(6,899)
Profit for the year		-	-	-	-	-	-	-	-	581,202	581,202	1,541	582,743
Total comprehensive income for the year		-	-	-	-	161,226	(54,171)	(9,177)	(10,967)	-	86,911	41	86,952
At 31 December 2012		**2,204,390**	**2,565**	**200,262**	**1,084,258**	**55,945**	**(49,666)**	**30,273**	**(10,967)**	**1,656,753**	**5,173,813**	**7,702**	**5,181,515**
At 1 January 2013		**2,204,390**	**2,565**	**200,262**	**1,084,258**	**55,945**	**(49,666)**	**30,273**	**(10,967)**	**1,656,753**	**5,173,813**	**7,702**	**5,181,515**
Dividend paid		-	-	-	-	-	-	-	-	-	-	(1,397)	(1,397)
Profit for the year		-	-	-	-	-	-	-	-	640,121	640,121	1,728	641,849
Total comprehensive income for the year		-	-	-	-	(158,385)	81,851	59,169	19,321	-	1,956	(43)	1,913
At 31 December 2013		**2,204,390**	**2,565**	**200,262**	**1,084,258**	**(102,440)**	**32,185**	**89,442**	**8,354**	**2,296,874**	**5,815,890**	**7,990**	**5,823,880**

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	1 January-31 December 2013	1 January-31 December 2012
Cash flows from operating activities			
Interest received		3,701,277	4,206,617
Interest paid		(2,118,324)	(2,244,969)
Fees and commissions received		1,247,623	1,131,478
Trading income		(42,635)	122,040
Recoveries of impairment of loan, lease and factoring receivables		390,110	333,650
Fees and commissions paid		(383,105)	(387,892)
Cash payments to employees and other parties		(771,042)	(674,717)
Other operating activities		(825,177)	(1,084,159)
Income taxes paid		(117,592)	(204,697)
Cash flows from operating activities before changes in operating assets and liabilities		**1,081,135**	**1,197,351**
Changes in operating assets and liabilities			
Net (increase) / decrease in trading securities		(195,060)	485,521
Net (increase) in reserve deposits at central banks		(1,904,102)	(1,772,341)
Net increase in loans and receivables due from banks		(425,173)	(733,365)
Net increase in loans and receivables		(8,592,252)	(3,522,830)
Net (increase) / decrease in factoring receivables		(349,135)	57,019
Net decrease / (increase) in other assets		96,138	(432,569)
Net (increase) / decrease in deposits from other banks		704,624	(201,568)
Net increase in customers' deposits		4,879,912	6,045,141
Net (increase) / decrease in other money market deposits		1,021,229	(1,061,400)
Net (increase) / decrease in factoring payables		4,024	(2,522)
Net increase in other liabilities		18,160	692,406
Net cash used in operating activities		**(4,741,635)**	**(446,508)**
Cash flows from investing activities			
Purchases of available- for- sale securities	5	(6,909,289)	(1,871,048)
Proceeds from sale and redemption of available-for-sale securities	5	6,331,629	2,370,095
Proceeds from redemption of held to maturity securities	5	27,776	-
Purchases of property and equipment	8	(145,952)	(74,623)
Proceeds from the sale of premises and equipment		1,746	28,296
Purchases of intangible assets	9	(45,596)	(17,666)
Net cash from / (used) in investing activities		**(739,686)**	**435,054**
Cash flows from financing activities			
Proceeds from funds borrowed and debt securities		6,933,321	4,652,084
Repayment of funds borrowed and debt securities		(4,231,281)	(5,743,956)
Net cash (used) / from financing activities		**2,702,040**	**(1,091,872)**
Effect of net foreign exchange difference on cash and cash equivalents		67,874	(24,885)
Net decrease / increase in cash and cash equivalents		(1,630,272)	69,140
Cash and cash equivalents at the beginning of the year	4	3,581,774	3,512,634
Cash and cash equivalents at the end of the year	**4**	**1,951,502**	**3,581,774**

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

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

1. CORPORATE INFORMATION

General

Türk Ekonomi Bankası Anonim Şirketi ("TEB" or "The Bank"), which had been a local bank incorporated in Kocaeli in 1927 under the name of Kocaeli Halk Bankası T.A.Ş., was acquired by the Çolakoğlu Group in 1982. Its title was changed as Türk Ekonomi Bankası A.Ş. and its headquarters moved to İstanbul. On 10 February 2005, BNP Paribas took over 50% of shares of TEB Holding A.Ş. Consequently, BNP Paribas became indirect shareholder of TEB with 42.125% ownership. In 2009 BNP Paribas Group successively acquired 75% of Fortis Bank Belgium and 66% of Fortis Bank Luxembourg and became the shareholder holding the majority of the shares of Fortis Bank Turkey. The indirect majority shareholders of TEB which are BNP Paribas and Çolakoğlu Group has agreed on the merge of TEB and Fortis Bank under the trademark of TEB and following the authorizations obtained from the regulatory authorities on 14 February 2011 the legal merge of two banks has been performed. Certain shares of the Bank, representing 20% of the total, were listed on the İstanbul Stock Exchange in February 2000. Currently, 4.18% of the total shares are publicly traded. TEB's shares are also listed and traded on the London Stock Exchange as GDR's since 2000. The registered office address of TEB is TEB Kampüs C ve D Blok, Saray Mahallesi, Sokullu Caddesi, No: 7A-7B Ümraniye-İstanbul/Turkey.

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

Following the merger and related subsequent share transfers among shareholders, the shareholders' structure and their respective ownerships are summarized below as of 31 December 2013 together with the comparative information as of 31 December 2012:

	31 December 2013		**31 December 2012**	
Name of shareholders	**Paid in capital**	**%**	**Paid in capital**	**%**
TEB Holding A.Ş. (previously TEB Mali Yatırımlar A.Ş.)	1,212,414	55.00	1,212,414	55.00
BNP Yatırımlar Holding A.Ş.	518,342	23.51	514,616	23.34
BNP Paribas Fortis Yatırımlar Holding A.Ş.	380,311	17.25	376,584	17.08
Publicly Traded	92,222	4.18	99,556	4.52
Other Shareholders	1,101	0.06	1,220	0.06
	2,204,390	**100.00**	**2,204,390**	**100.00**

As of 31 December 2013, the Bank's paid-in-capital consists of 2,204,390,000 shares of TL 1.00 (full TL) nominal each.

The consolidated financial statements of the Group were authorized for issuance by the management on 4 March 2014. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

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

1. CORPORATE INFORMATION (continued)

General (continued)

Nature of Activities of the Group

The operations of the Group consist of banking, factoring, securities brokerage and portfolio management, which are conducted mainly for local customers.

The subsidiaries included in the consolidation and the effective shareholding percentages of the Group as of 31 December 2013 and 31 December 2012 are as follows:

	Place of Incorporation	Effective Shareholding And Voting Rights %	
		31 December 2013	31 December 2012
The Economy Bank N.V. (Economy Bank)	Netherlands	100.0	100.0
TEB Yatırım Menkul Değerler A.Ş. (TEB Yatırım)	Turkey	100.0	100.0
TEB Faktoring A.Ş. (TEB Faktoring)	Turkey	100.0	100.0
TEB Portföy Yönetimi A.Ş. (TEB Portföy)	Turkey	54.74	54.74
Stichting Effecten Dienstverlening	Netherlands	100.0	100.0
Kronenburg Vastgoed B.V.	Netherlands	100.0	100.0

The principal activities of the consolidated subsidiaries are as follows:

Economy Bank – Commercial bank, which mainly deals in foreign trade finance, corporate banking, private banking and correspondent banking services.

TEB Yatırım – Rendering fixed income and equity brokerage and corporate finance services in line with the rules of the Capital Markets Board of Turkey.

TEB Faktoring – Providing both domestic and export factoring services to industrial and commercial enterprises in Turkey.

TEB Portföy – Managing individual customer portfolios and mutual funds which consist of capital market instruments.

Stichting Effecten Dienstverlening – Operating under Economy Bank for holding securities of customers, located in the Netherlands.

Kronenburg Vastgoed B.V. – Real estate company founded for the purpose of the ownership of property possessed by Economy Bank in the Netherlands.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These financial statements have been prepared under the historical cost convention, except for those assets and liabilities measured at fair value.

The Bank and its subsidiaries which are incorporated in Turkey maintain their books of account and prepare their statutory financial statements in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law and accounting standards promulgated by the other relevant laws and regulations. The foreign subsidiaries maintain their books of account and prepare their statutory financial statements in their local currencies and in accordance with the regulations of the countries in which they operate. The consolidated financial statements have been prepared in accordance with IFRS and presented in Turkish Lira ("TL"). For the purpose of fair presentation in accordance with IFRS, certain adjustments and reclassifications have been made to the statutory financial statements, which mainly comprise the effects of deferred taxation and reserve for impairment of loans and receivables.

The merger of TEB and Fortis Bank A.Ş. has been effectuated as of 14 February 2011. The related transaction has been accounted for in accordance with the requirements of IFRS 3 "Business Combinations".

2.2 Summary of Significant Accounting Policies, Judgments and Estimates

Judgments and Estimates

The preparation of the financial statements in accordance with IFRS, including International Accounting Standards (IAS) requires management to make estimates and assumptions that are reflected in the measurement of income and expenses in the statement of income and in the carrying value of assets and liabilities in the balance sheet, and in the disclosure of information in the notes to the financial statements. Managers do exercise judgment and make use of information available at the date of the preparation of the financial statements in making these estimates. The actual future results of operations in respect of the areas where these judgments and estimates have been made may in reality be different than those estimates. This may have a material effect on the consolidated financial statements.

The judgments and estimates that may have a significant effect on amounts recognized in the consolidated financial statements are discussed in the relevant sections below.

Functional and Presentation Currency

Functional and Presentation Currency for the Bank and Its Subsidiaries Which Operate in Turkey:

Functional currency of the Bank and its subsidiaries, which operate in Turkey, is Turkish Lira ("TL"). Until 31 December 2004, the date at which the Group considers that the qualitative and quantitative characteristics necessitating restatement pursuant to IAS 29 ("Financial Reporting in Hyperinflationary Economies") were no longer applicable, the financial statements of these companies were restated for the changes in the general purchasing power of TL based on IAS 29, which requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and the corresponding figures for previous periods be restated in the same terms.

Functional Currencies of Foreign Subsidiaries:

As of 31 December 2013, Economy Bank operating in Netherlands adopted the Euro ("EUR") as its functional currency.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Foreign Currency Translation

The consolidated financial statements are presented in TL, which is the Group's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are recognized in the income statement.

Foreign currency translation rates used by the Group as of respective year-ends are as follows:

	EUR / TL	USD / TL
31 December 2011	2.44	1.89
31 December 2012	2.35	1.78
31 December 2013	2.93	2.13

The assets and liabilities of foreign subsidiaries (none of which has the currency of a hyperinflationary economy) are translated into the presentation currency of the Group (TL) at the exchange rate ruling at the balance sheet date. The income statements of foreign subsidiaries are translated at average exchange rates for the year end. For consolidation purposes, exchange differences arising from the translation of the net investment in foreign entities are included in Other comprehensive income as currency translation differences until the disposal of the net investment.

On disposal of a foreign entity, the deferred cumulative amount recognized in Other comprehensive income relating to that particular foreign operation is recognized in the income statement as a component of the gain or loss on disposal.

Basis of Consolidation and Goodwill

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries, as at 31 December of each year.

Subsidiaries are entities over which the Group has power to govern the financial and operating policies so as to benefit from their activities. Subsidiaries in which the Group owns directly or indirectly more than 50% of the voting rights, or has power to govern the financial and operating policies under a statute or agreement are subject to consolidation. The existence and effect of potential voting rights which are currently exercisable or convertible are considered when assessing whether the Group controls another entity or not.

Subsidiaries are fully consolidated from the date of acquisition, referring to the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

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

All intra-group balances, transactions, and unrealized gains on intra-group transactions are eliminated; unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Basis of Consolidation and Goodwill (continued)

The acquisition method of accounting is used for acquired businesses. The acquisition method of accounting includes allocating the cost of the business combination to the fair value of assets acquired and liabilities and contingent liabilities assumed at the date of acquisition. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in the income statement as a bargain purchase gain. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to cash generating units. There is no negative bargain purchase gain recognized by the Group. The goodwill regarding the merge with Fortis Bank A.Ş. and TEB on 14 February 2011.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and accumulated impairment in value.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and land improvements	50 years
Vehicles	5-10 years
Furniture, fixtures and office equipment and others	2-50 years
Land	Not depreciated
Leasehold improvements	Lease period (max 10 years)

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each year end.

The carrying values of premises and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets of cash generating units are written down to their recoverable amount. The recoverable amount is defined as the amount that is the higher of the asset’s fair value less costs to sell and value in use. Impairment losses are recognized in the income statement.

An item of premises and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Intangible Assets

Intangible assets acquired are capitalized at cost. Following initial recognition intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets with finite lives are amortized on a straight-line basis over the best estimate of their useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. There is no impairment recorded related to intangible assets. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

The Group amortizes intangible assets with a finite life on a straight-line basis over the estimated useful lives of 3 to 5 years. There are no intangible assets with indefinite useful lives, other than goodwill.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the income statement when the asset is derecognized.

Financial Assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments and available-for-sale financial assets. When financial assets are recognized initially, they are measured at fair value. The Group determines the classification of its financial assets at initial recognition.

The Group recognizes all regular way purchases and sales of financial assets on the settlement date i.e. the date that the asset is delivered. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Changes in fair value of assets to be received during the period between the trade date and the settlement date are accounted for in the same way as the acquired assets i.e. for assets carried at cost or amortized cost; change in value is not recognized.

Financial assets at fair value through profit or loss

Financial assets classified as held-for-trading are included in this category. Trading securities are securities, which were either acquired for generating a profit from short term fluctuations in price or dealer’s margin, or are securities included in a portfolio in which a pattern of short term profit taking exist. Derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Gains or losses on investments held-for-trading are recognized in income.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investments intended to be held for an undefined period are not included in this classification. The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgments. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances such as selling an insignificant amount close to maturity - it will be required to classify the entire class as available-for-sale. The investments would therefore be measured at fair value; not amortized cost. If the entire class of held-to-maturity investments is tainted, the carrying value would decrease by TL 4,280 (31 December 2012: TL 112 increase) before tax effect, by adjusting to fair value due to change in the classification and hence, the valuation methodology, with a corresponding entry in the net unrealized gains on available-for-sale investments under equity. There has been no tainting in the held-to-maturity portfolio during the current period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Financial Assets (continued)

Held-to-maturity investments (continued)

Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method, less any impairment in value. Amortized cost is calculated by taking into account all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process.

Interest earned whilst holding held-to-maturity securities is reported as interest income.

When financial assets are transferred to held-to-maturity category from available-for-sale portfolio, as a result of a change in intention, the fair value carrying amount of the related financial assets becomes the new amortized cost. Any previous gain or losses on those assets that have been recognized in equity are amortized over the remaining life of the held-to-maturity investments using the effective interest method.

Government debt securities with TL224,275 nominal value which had been accounted as financial assets available for sale, have been classified as held to maturity investments with their market value amounting to TL287,008 as of 25 September 2013. As of 25 September 2013, accumulated valuation difference amounting to negative TL38,362 for reclassified available for sale securities are followed under shareholders' equity. This accumulated valuation difference is subjected to amortization according to the days to maturity and being transferred to profit/loss accounts in the related periods. As of 31 December 2013, total accumulated valuation difference of these securities followed under shareholders' equity is negative TL36,973.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Such assets are carried at amortized cost using the effective interest method less any impairment in value. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest earned on such loans and receivables is reported as interest income.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses on remeasurement to fair value are recognized as a separate component of Other comprehensive income until the investment is derecognized, or until the investment is determined to be impaired, at the time the cumulative gain or loss previously reported in Other comprehensive income is included in the income statement. However, interest calculated on available-for-sale financial assets using effective interest method is reported as interest income.

For investments that are traded in an active market, fair value is determined by reference to stock exchange or current market bid prices, at the close of business on the balance sheet date. For investments where there is no market price or market price is not an indicator of the fair value of the instrument, fair value is determined by reference to the current market value of substantially the same instrument, by recent arm's length transactions, by discounted cash flow analysis or through other valuation techniques commonly used.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Financial Assets (continued)

Repurchase and Resale Transactions

The Group enters into sales of securities under agreements to repurchase such securities at a fixed price at a fixed future date. Such securities, which have been sold subject to a repurchase agreement ('repos'), are recognized in the balance sheet and are measured in accordance with the accounting policy of the security portfolio which they belong to. Securities sold subject to repurchase agreements ('repos') are referred to as loaned securities when the transferee has the right by contract or custom to sell or repledge the collateral. The counterparty liability for amounts received under these agreements is included in other money market deposits. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreement using the effective interest method.

Securities purchased with a corresponding commitment to resell at a fixed price at a specified future date ('reverse repos') are not recognized in the balance sheet, as the Group does not obtain control over the assets. Amounts paid under these agreements are included in other money market placements. The difference between purchase and resale price is treated as interest income and accrued over the life of the reverse repurchase agreement using the effective interest method.

Netting of Financial Assets and Liabilities

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Recognition and Derecognition of Financial Instruments

The Group recognizes a financial asset or financial liability in the balance sheet only when it becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) when the rights to receive cash flows from the asset have expired; or while retaining the right to receive cash flows from the asset the Group has also assumed an obligation to pay them in full without material delay to a third party; or the Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset, or has transferred the control of the asset.

The Group does not have any assets where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset that is recognized to the extent of the Group's continuing involvement in the asset.

The Group derecognizes a financial liability when the obligation under the liability is discharged or cancelled or expires.

When an existing liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Impairment of Financial Assets

a) Assets carried at amortized cost

In determining whether an impairment loss should be recorded in the income statement, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated amounts recoverable from a portfolio of loans and individual loans. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

(a) significant financial difficulty of the issuer or obligor;
(b) a breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;
(c) the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
(d) becoming probable that the borrower will enter bankruptcy or other financial reorganization;
(e) the disappearance of an active market for that financial asset because of financial difficulties; or
(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
    (i) adverse changes in the payment status of borrowers; or
    (ii) national or local economic conditions that correlate with defaults on the assets in the group.

All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured based on the difference between the carrying amount and the estimated recoverable amount of the asset, determined by the net present value of the expected future cash flows discounted at the loan's original effective interest rate. The estimated recoverable amount of a collateralized financial asset is measured based on the amount that is expected to be realized from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognized in the income statement.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of impairment loss is recognized in income statement, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

A write off is made when all or part of a loan is deemed uncollectible or in the case of debt forgiveness. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Write offs are charged against previously established allowances and reduce the principal amount of a loan. Subsequent recoveries of amounts previously written off are included in income.

The methodology and assumptions used for estimating both the amount and timing of recoverable amounts are reviewed regularly to reduce any differences between loss estimates and actual loss experience. The total carrying value of such loans and factoring receivables as of 31 December 2013 is TL 38,557,552 (31 December 2012: TL 30,241,274) net of impairment allowance of TL 987,730 (31 December 2012: TL 741,251).

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Impairment of Financial Assets (continued)

b) Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value since its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the carrying amount and the present value of the recoverable amount of the asset. There is no impairment recorded related to assets carried at cost.

c) Available-for-sale financial assets

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the income statement. Reversals of impairment losses on debt instruments are reversed through profit or loss; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

Interest - Bearing Deposits and Borrowings

All deposits and borrowings are initially recognized at the fair value of consideration received less directly attributable transaction costs. After initial recognition interest-bearing deposits and borrowings are subsequently measured at amortized cost using the effective interest method. Gains or losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

Employee Benefits

Defined Benefit Plans

In accordance with existing social legislation in Turkey, the Bank is required to make lump-sum termination indemnities over a 30 day salary to each employee who has completed over one year of service, whose employment is terminated due to retirement or for reasons other than resignation or misconduct, and due to marriage, female employees terminating their employments within a year as of the date of marriage, or male employees terminating their employments due to their military service. The Bank is also required to make a payment for the period of notice calculated over each service year of the employee whose employment is terminated for reasons other than resignation or misconduct. Total benefit is calculated in accordance with IAS No: 19 “International Accounting Standard on Employee Benefits”.

Such benefit plans are unfunded since there is no funding requirement in Turkey. The cost of providing benefits to the employees for the services rendered by them under the defined benefit plan is determined by independent actuaries annually using the projected unit credit method. All actuarial gains and losses are recognized in the income statement.

In calculating the related liability to be recorded in the financial statements for these defined benefit plans, the Bank uses independent actuaries and also makes assumptions and estimation relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc. These estimations are reviewed annually. The carrying value of provision for employee termination benefits as of 31 December 2013 is TL89,348 (31 December 2012: TL 93,125).

	31 December 2013	31 December 2012
Discount Rate (%)	9.92	6.91
Expected Inflation Rate (%)	6.45	4.78
Salary Increase Rate Above Inflation Rate (%)	1.00	1.00

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Employee Benefits (continued)

Defined Benefit Plans (continued)

Employees transferred to the Bank following the business combination defined in “General Information” of the Parent Bank and Fortis Bank A.Ş. are the members of “Türk Dış Ticaret Bankası Mensupları Pension Fund Foundation” (the “Pension Fund”) which was established in May 1964 under the Provisional Article 20 of Social Insurance Law No: 506. Technical financial statements of the Pension Fund are reviewed by a licensed actuary in accordance with Article 38 of the Insurance Supervisory Law and the “Actuary Regulations” issued based on the same article. As of 31 December 2013, the Pension Fund has 2,401 employees and 918 pensioners (31 December 2012: 2,571 employees and 873 pensioners).

Provisional Article 23 (1) of Banking Law No: 5411 (the “Banking Law”) published in the Official Gazette repeated no: 25983 on 1 November 2005 requires the transfer of bank funds to the Social Security Institution (the “SSI”) within 3 years after the effective date of the Banking Law and the related paragraph also sets out the basis for the related transfer. However, Article 23 (1) of Banking Law No: 5411 was annulled based on the Constitutional Court’s ruling issued on 22 March 2007 and ruled for the stay of execution as of 31 March 2007. The related Court ruling and its basis were published in the Official Gazette No: 26731 on 15 December 2007.

Following the publication of the said decree of the Constitutional Court, the Turkish Grand National Assembly (the “TGNA”) initiated its studies on the development of new regulations in regards to the transfer of bank pension participations to the SSI and the related articles of the Social Security Law that are set out to determine the basis of fund transfers and new regulations became effective with its publication in the Official Gazette No: 26870 on 8 May 2008 and the completion of the transfer within 3 years starting from 1 January 2008. Upon the Council of Ministers’ resolution issued in the Official Gazette, the transfer period has been extended for 2 years as of 14 March 2011. According to amendment on the social security and general health insurance law published in the Official Gazette dated 8 March 2012 numbered 6283, mentioned 2-year transfer period has been increased to 4 years.

According to the related regulation, all other outstanding social rights and payments of participants (even though they are covered in their respective settlement deed) shall be covered by the companies employing pension fund participants following the transfer of the pension fund participants and/or those that are paid annuities and their beneficiaries to the Social Security Institution.

The technical financial statements of the Pension Fund are prepared by an independent actuary company considering related regulation and the Fund is not required to provide any provisions for any technical or actual deficit in the financial statements based on the actuarial report prepared as of 31 December 2013. Since the Bank has no legal rights to carry the economic benefits arising from repayments of Pension Funds and/or decreases in future contributions at present value; no asset has been recognized in the balance sheet.

The Bank management anticipates that any potential liability that may be incurred during or after the transfer will be likely recovered by plan assets and no additional liability is foreseen.

Defined Contribution Plans

The Bank pays contributions to Social Security Funds and to “Security Fund” whose members joined to the Bank as a consequence of merger.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, 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.

Restructuring Costs

A restructuring provision is recognized when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity (Note 23 and 24). The Group recorded TL 33,025 (31 December 2013: nil) of restructuring expense in the previous year.

Leases

(a) The Group as Lessee

Finance leases

Assets held under finance leases are recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Group's general policy on borrowing costs.

Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. These include rent agreements of branch premises, which are cancellable subject to a period of notice. Related payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

When an operating lease is terminated before the lease period expires, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which the termination takes place.

(b) The Group as Lessor

Finance leases

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

Factoring Receivables

Factoring receivables are recognized at original factored receivable amount less advances extended against factoring receivables, interest and factoring commissions charged, and are carried at amortized cost, which represents the fair value of consideration given, and subsequently remeasured at amortized cost less reserve for impairment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Leases (continued)

(a) The Group as Lessee (continued)

Income and Expense Recognition

Interest income and expenses are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, throughout the period to the next repricing date. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment) but does not consider future credit losses. The calculation includes all fees paid or received between parties in the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate of the loan. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts. Asset management fees and custody service fees that are continuously provided over an extended period of time are recognized ratably over the period service is provided.

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

Income Tax

Tax expense/(income) is the aggregate amount included in the determination of net profit or loss for the period in respect of current and deferred taxes.

The Group is subject to income taxes in various jurisdictions. Where there are matters causing the final tax outcome to be different from the amounts initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. As of 31 December 2013, the Group carries TL 15,168 of income taxes payable (31 December 2012: TL 69,576), TL 116,617 of deferred tax asset (31 December 2012: TL 196,526) and has no deferred tax liability (31 December 2012: nil).

Current tax

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

Deferred tax

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that, in the management’s judgment, it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Income Tax (continued)

Deferred tax (continued)

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

Income tax relating to items recognized directly in Other comprehensive income is recognized in equity and not in the income statement.

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

Derivative Financial Instruments and Hedge Accounting

Derivatives Held for Trading

The Group enters into transactions with derivative instruments including forwards, swaps, options and futures in the foreign exchange and capital markets. Fair values of foreign currency forward and swap transactions are determined by comparing the period end foreign exchange rates with the contractual forward rates discounted to the balance sheet date with the current market rates. The resulting gain or loss is reflected in the income statement.

In the assessment of fair value of interest rate swap instruments, interest amounts to be paid or to be received due to/from the fixed rate on the derivative contract are discounted to the balance sheet date with the current applicable fixed rate in the market that is prevailing between the balance sheet date and the interest payment date, whereas interest amounts to be paid or to be received due to/from the floating rate on the derivative contract are recalculated with the current applicable market rates that are prevailing between the balance sheet date and the interest payment date and are discounted to the balance sheet date again with the current applicable market rates that are prevailing between the balance sheet date and the interest payment date. The differences between the fixed rate interest amounts and floating rate interest amounts to be received/paid are recorded in the profit/loss accounts in the current period.

The fair value of call and put option agreements are measured at the valuation date by using the current premium values of all option agreements, and the differences between the contractual premiums received/paid and the current premiums measured at valuation date are recognized in the statement of income.

Futures transactions are valued on a daily basis by the primary market prices and related unrealized gains or losses are reflected in the income statement.

All derivatives are carried as assets when their fair value is positive and as liabilities when it is negative. As of 31 December 2013, the carrying amount of derivative financial assets held for trading is TL 729,270 (31 December 2012: TL 166,710) and the carrying amount of derivative financial liabilities held for trading is TL 482,831 (31 December 2012: TL 234,815).

Derivatives and Hedge Accounting

The Bank applies fair value hedge accounting for the interest rate risk of a certain portfolio of its consumer loans with certain cross currency and interest rate swaps designated as hedging instruments.

The fair value changes of the hedged portfolio are included under "remeasurement adjustment on interest-rate risk hedged portfolios" in the balance sheet and "net gain/loss on financial instruments at fair value through profit or loss" in the income statement. Additionally, the difference between the fair value and the carrying value of the hedged portfolio at the inception of hedge accounting is amortized based on the respective maturities and included in "net gain/loss on financial instruments at fair value through profit or loss" in the income statement together with the fair value changes of the hedged portfolio and hedging instruments. The actual interest income and expense on the derivatives used for hedging purposes are recorded as interest income and expense.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Summary of Significant Accounting Policies, Judgments and Estimates (continued)

Derivatives and Hedge Accounting (continued)

The Bank applies cash flow hedge accounting by matching a portion of its swap portfolio with its deposit basis. As of 31 December 2013, the reserve for hedging funds net of tax under equity is TL 32,185 credit (31 December 2012: TL 49,666 debit).The details of the hedge accounting are explained in Note 18.

At the inception of the hedge, the Bank prepares formal documentation of the hedging relationship identifying the hedged item, the hedging instrument, the hedging strategy, the type of risk covered and the methods used to assess the effectiveness of the hedging relationship. On inception and on a quarterly basis the effectiveness of the hedging relationship is assessed consistently with the original documentation.

The Bank has started a fair value hedge for the value of its fixed coupon government bonds in September 2012 by using swaps as hedging instruments.

As of 31 December 2013, the carrying amount of derivative financial assets used for hedging purposes is TL 112,245 (31 December 2012: TL 16,883) and the carrying amount of derivative financial liabilities for hedging purposes is TL 69,438 (31 December 2012: TL 168,507).

Fiduciary Assets

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

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

Interest Income and Expenses

Interest income and expense are recognized in the income statement for all interest bearing instruments whose cash inflows and outflows are known on an accrual basis using the effective interest method. In accordance with the related regulation, realized and unrealized interest accruals of the non-performing loans are reversed and interest income related to these loans are recorded as interest income only when collected.

Fees and Commission Income and Expenses

Fees for various banking services are recorded as income when collected and prepaid commission income on cash and non-cash loans is recorded as income by using effective interest rate in the related period.

Fees and commissions for funds borrowed paid to other financial institutions, as part of the transaction costs, are recorded as prepaid expenses using the effective interest rate and are expensed on the related periods.

Dividend Income

Dividend income from is reflected in the financial statements when the group’s right to receive payments is established.

2.3 Classification

“International Accounting Standard (IAS 19) about Benefits for Employee ” was entered into force for account periods starting after 31 December 2012, in order to account the difference in actuarial assumptions changes or differences between actual and actuarial assumptions. Standard possesses to start retrospective application under “Transition and enforcement date” title. Because of the reason, amount requires to recognize as “Other Comprehensive Income”, showed in prior period profit/ loss account as of 31 December 2012. As a result of this classification, as of 1 January 2013 prior period profit/ loss increased by TL10,967 and “Other reserves and retained earnings” was decreased by the same amount. Before the arrangement, as of 31 December 2012 the Group’s profit before tax was amounting to TL 716,495, and net profit was amounting to TL 571,776.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 New and Revised International Financial Reporting Standards

a. Standards, amendments and IFRICs applicable to 31 December 2013 year ends

i) Amendment to IAS 1, 'Financial statement presentation', regarding other comprehensive income; is effective for annual periods beginning on or after 1 July 2012. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

ii) Amendment to IAS 19, 'Employee benefits'; is effective for annual periods beginning on or after 1 January 2013. These amendments eliminate the corridor approach and calculate finance costs on a net funding basis.

iii) Amendment to IFRS 1, 'First time adoption', on government loans; ; is effective for annual periods beginning on or after 1 January 2013. This amendment addresses how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRS. It also adds an exception to the retrospective application of IFRS, which provides the same relief to first-time adopters granted to existing preparers of IFRS financial statements when the requirement was incorporated into IAS 20 in 2008.

iv) Amendment Amendment to IFRSs 10, 11 and 12 on transition guidance¸; is effective for annual periods beginning on or after 1 January 2013. These amendments provide additional transition relief to IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied.

v) Annual improvements 2011; is effective for annual periods beginning on or after 1 January 2013.These annual improvements, address six issues in the 2009-2011 reporting cycle. It includes changes to: IFRS 1, 'First time adoption', IAS 1, 'Financial statement presentation', IAS 16, 'Property plant and equipment', IAS 32, 'Financial instruments; Presentation' and IAS 34, 'Interim financial reporting'.

vi) IFRS 10, 'Consolidated financial statements'; is effective for annual periods beginning on or after 1 January 2013. The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. It defines the principle of control, and establishes controls as the basis for consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements.

vii) IFRS 11, 'Joint arrangements'; ; is effective for annual periods beginning on or after 1 January 2013. IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and therefore equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

viii) IFRS 12, 'Disclosures of interests in other entities'; is effective for annual periods beginning on or after 1 January 2013. IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

ix) IFRS 13, 'Fair value measurement'; is effective for annual periods beginning on or after 1 January 2013. IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 New and Revised International Financial Reporting Standards (continued)

a. Standards, amendments and IFRICs applicable to 31 December 2013 year ends (continued)

x) IAS 27 (revised 2011), 'Separate financial statements'; is effective for annual periods beginning on or after 1 January 2013. IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.

xi) IAS 28 (revised 2011), 'Associates and joint ventures'; is effective for annual periods beginning on or after 1 January 2013. IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

xii) IFRIC 20, 'Stripping costs in the production phase of a surface mine' is effective for annual periods beginning on or after 1 January 2013. This interpretation sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. The interpretation may require mining entities reporting under IFRS to write off existing stripping assets to opening retained earnings if the assets cannot be attributed to an identifiable component of an ore body.

b. New IFRS standards, amendments and IFRICs effective after 1 January 2014

i) Amendment to IAS 32, 'Financial instruments: Presentation', on asset and liability offsetting is effective for annual periods beginning on or after 1 January 2014.These amendments are to the application guidance in IAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.

ii) Amendments to IFRS 10, 12 and IAS 27 on consolidation for investment entities is effective for annual periods beginning on or after 1 January 2014. These amendments mean that many funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. Changes have also been made IFRS 12 to introduce disclosures that an investment entity needs to make.

iii) Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures is effective for annual periods beginning on or after 1 January 2014. This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

iv) Amendment to IAS 39 'Financial Instruments: Recognition and Measurement' - 'Novation of derivatives is effective for annual periods beginning on or after 1 January 2014. This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria.

v) IFRIC 21, 'Levies' is effective for annual periods beginning on or after 1 January 2014. This is an interpretation of IAS 37, 'Provisions, contingent liabilities and contingent assets'. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

vi) IFRS 9 'Financial instruments' – classification and measurement; is effective for annual periods beginning on or after 1 January 2015. This standard on classification and measurement of financial assets and financial liabilities will replace IAS 39, 'Financial instruments: Recognition and measurement'. IFRS 9 has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is measured at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. For liabilities, the standard retains most of the IAS 39 requirements. These include amortised-cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. This change will mainly affect financial institutions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 New and Revised International Financial Reporting Standards (continued)

b. New IFRS standards, amendments and IFRICs effective after 1 January 2014 (continued)

vii) Amendments to IFRS 9,'Financial instruments', regarding general hedge. These amendments to IFRS 9, 'Financial instruments', bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements.

viii) Amendment to IAS 19 regarding defined benefit plans; ; is effective for annual periods beginning on or after 1 July 2014. These narrow scope amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.

ix) Annual improvements 2012; is effective for annual periods beginning on or after 1 July 2014. These amendments include changes from the 2010-12 cycle of the annual improvements project, that affect 7 standards:

- IFRS 2, 'Share-based payment'
- IFRS 3, 'Business Combinations'
- IFRS 8, 'Operating segments'
- IFRS 13, 'Fair value measurement'
- IAS 16, 'Property, plant and equipment' and IAS 38,'Intangible assets'
- Consequential amendments to IFRS 9, 'Financial instruments', IAS 37, 'Provisions, contingent liabilities and contingent assets', and
- IAS 39, Financial instruments – Recognition and measurement'.

x) Annual improvements 2013; is effective for annual periods beginning on or after 1 July 2014. The amendments include changes from the 2011-2-13 cycle of the annual improvements project that affect 4 standards:

- IFRS 1, 'First time adoption'
- IFRS 3, 'Business combinations'
- IFRS 13, 'Fair value measurement' and
- IAS 40, 'Investment property'.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Statement of Cash Flows

The cash and cash equivalents balance comprises cash and balances with central banks (excluding restricted reserve deposits), deposits with banks and other financial institutions and other money market placements with an original maturity of three months or less.

Changes in cash and cash equivalents related to operating activities reflect cash flows generated by the Group's operations.

Changes in cash and cash equivalents related to investing activities reflect cash flows resulting from acquisitions and disposals of subsidiaries, as well as acquisitions and disposals of premises and equipment.

Changes in cash and cash equivalents related to financing activities reflect the cash inflows and outflows resulting from transactions with shareholders and cash flows related to subordinated debt.

3. SEGMENT INFORMATION

Business segments

The Group has three main business segments which are organized and managed separately according to the nature of the products and services provided.

Year ended 31 December 2013

	Retail Banking	Corporate Banking	Treasury/ Head Office	Eliminations	Group
Net banking income	646,899	1,626,855	490,643	(1,672)	2,762,725
Dividend income	-	-	4,209	(4,209)	-
Revenues from other segments	-	-	-	-	-
Net banking income	**646,899**	**1,626,855**	**494,852**	**(5,881)**	**2,762,725**
Segment result (A)	93,459	817,380	(105,259)	(4,195)	801,385
Unallocated costs (B)	-	-	-	-	-
Operating profit (A-B)	**93,459**	**817,380**	**(105,259)**	**(4,195)**	**801,385**
Income tax	-	-	(159,536)	-	(159,536)
Net profit	**93,459**	**817,380**	**(264,795)**	**(4,195)**	**641,849**
Assets and Liabilities					
Segment assets	13,138,723	25,418,829	15,460,794	(267,580)	53,750,766
Unallocated assets	-	-	2,058,647	(387)	2,058,260
Total assets	**13,138,723**	**25,418,829**	**17,519,441**	**(267,967)**	**55,809,026**
Segment liabilities	19,480,939	15,479,074	12,775,154	(87,924)	47,647,243
Unallocated liabilities	-	-	2,338,290	(387)	2,337,903
Total liabilities	**19,480,939**	**15,479,074**	**15,113,444**	**(88,311)**	**49,985,146**
Other segment information					
Capital expenditures					
Tangible fixed assets	-	-	145,952	-	145,952
Intangible fixed assets	-	-	45,696	-	45,696
Depreciation	-	-	70,277	-	70,277
Amortization	-	-	15,164	-	15,164

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

3. SEGMENT INFORMATION (continued)

Business segments (continued)

Year ended 31 December 2012

	Retail Banking	Corporate Banking	Treasury/ Head Office	Eliminations	Group
Net banking income	647,505	1,454,801	319,406	(1,863)	2,419,849
Dividend income	-	-	22,127	(21,811)	316
Revenues from other segments	-	-	-	-	-
Net banking income	**647,505**	**1,454,801**	**341,533**	**(23,674)**	**2,420,165**
Segment result (A)	145,924	833,845	(227,769)	(21,796)	730,204
Unallocated costs (B)	-	-	-	-	-
Operating profit (A-B)	**145,924**	**833,845**	**-227,769**	**(21,796)**	**730,204**
Income tax	-	-	-147,461	-	-147,461
Net profit	**145,924**	**833,845**	**-375,230**	**(21,796)**	**582,743**
Assets and Liabilities					
Segment assets	9,332,070	20,839,654	13,606,255	(252,629)	43,525,350
Unallocated assets	-	-	2,021,502	562	2,022,064
Total assets	**9,332,070**	**20,839,654**	**15,627,757**	**(252,067)**	**45,547,414**
Segment liabilities	16,425,444	12,644,294	8,974,927	(72,971)	37,971,694
Unallocated liabilities	-	-	2,394,388	(183)	2,394,205
Total liabilities	**16,425,444**	**12,644,294**	**11,369,315**	**(73,154)**	**40,365,899**
Other segment information					
Capital expenditures					
Tangible fixed assets	-	-	-	-	74,623
Intangible fixed assets	-	-	-	-	17,666
Depreciation	-	-	-	-	70,060
Amortization	-	-	-	-	12,744

Geographical segments

The Group's geographical segments are based on the location of Group's assets. The Group's activities are conducted predominantly in Turkey and Turkey is the home country of the Bank, which is also the main operating company. The areas of operation include all the primary business segments.

Total assets and total liabilities are based on the country in which the branch or subsidiary is located. Segment revenue from external customers included in operating income is based on the geographical location of customers or counterparties. The Group conducts majority of its business activities with local customers in Turkey. Accordingly, geographical segment revenue from customers outside of Turkey does not exceed 10% of total Group revenue.

Year ended 31 December 2013

	Turkey	European Union	Total
Other segment information			
Segment assets	51,996,398	1,754,368	53,750,766
Unallocated assets	2,039,133	19,127	2,058,260
Total assets	**54,035,531**	**1,773,495**	**55,809,026**
Capital expenditures			
Tangible fixed assets	145,942	10	145,952
Intangible fixed assets	45,069	627	45,696

Year ended 31 December 2012

	Turkey	European Union	Total
Other segment information			
Segment assets	41,895,340	1,630,010	43,525,350
Unallocated assets	1,999,283	22,781	2,022,064
Total assets	**43,894,623**	**1,652,791**	**45,547,414**
Capital expenditures			
Tangible fixed assets	74,243	380	74,623
Intangible fixed assets	17,291	375	17,666

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

4. CASH, BALANCES WITH CENTRAL BANKS, LOANS AND RECEIVABLES DUE FROM BANKS AND OTHER MONEY MARKET PLACEMENTS

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

	31 December 2013	31 December 2012
Cash on hand	693,670	641,383
Balances with central banks	978,747	503,052
Reserve deposits with central banks (restricted)	5,310,392	3,565,899
Cash and balances with central banks	**6,982,809**	**4,710,334**
Loans and receivables due from banks	**2,008,553**	**1,871,772**
Funds lent under reverse repurchase agreements	245	1,700,525
Other money market placements	**245**	**1,700,525**
Less: Loans due from banks	(1,719,165)	(1,124,381)
Less: Time deposits with original maturities of more than three months	(6,093)	(8,137)
Less: Reserve deposits (restricted)	(5,310,392)	(3,565,899)
Less: Interest accruals	(4,455)	(2,440)
Cash and cash equivalents in the statements of cash flows	**1,951,502**	**3,581,774**

According to the regulations of the Central Bank of Turkish Republic (the Central Bank), banks are obliged to deposit a portion of certain liability accounts as specified in the related decree.

As of 31 December 2013, the Turkish lira required reserve ratios are determined to be within the range of 5% - 11.50% depending on the maturity structure of deposits denominated in Turkish lira (31 December 2012: 5%-11% for all Turkish lira liabilities), and the required reserve ratios for foreign currency deposits and other liabilities within the range of 6% - 13% (31 December 2012: 6%-11% for all foreign currency liabilities).

Banks in the Netherlands are required to maintain a certain amount of funds and/or reserves on an account at the Dutch Central Bank and receive interest on their reserve requirement deposits at rates in line with open-market facilities. 0.25% (31 December 2012: 1%) reserve deposit requirement is applicable in Netherlands for all deposits maturing less than 2 years.

The effective interest rates on deposits and placements are as follows:

	31 December 2013		31 December 2012	
	Effective interest rate		Effective interest rate	
	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency
Balances with central banks	-	-	-	0.05%
Reserve deposits	-	-	-	-
Loans and receivables due from banks	4.25%-9.90%	0.45%-4.56%	4.00%-12.25%	0.07%-6.61%
Funds lent under reverse repurchase agreements	6.60%-7.06%	-	5.01%-7.30%	-
Interbank placements	-	-	-	-

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

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND INVESTMENT SECURITIES

Financial assets at fair value through profit and loss:

	31 December 2013			31 December 2012		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign Currency		Turkish Lira	Foreign Currency
Financial assets at fair value through profit and loss						
Debt instruments	**654,847**			**472,295**		
Turkish government bonds and treasury bills	642,579	5.90%-12.22%	-	465,362	4.28%-11.55%	3.29%-5.03%
Eurobonds issued by the Turkish government	12,268	-	1.92%-6.91%	6,933	-	1.09%-5.70%
Derivatives held for trading	**729,270**	-	-	**166,710**	-	-
Total financial assets at fair value through profit and loss	**1,384,117**			**639,005**		

Investment Securities:

	31 December 2013			31 December 2012		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign Currency		Turkish Lira	Foreign Currency
Available- for-sale securities at fair value						
Debt instruments						
Turkish government bonds	4,343,141	5.54%-14.72%	-	4,233,013	5.70%-10.12%	-
Turkish treasury bills	-	-	-	-	-	-
Eurobonds issued by the Turkish government	44,729	-	4.25%-5.17%	51,216	-	1.36%-3.01%
Equity instruments – unlisted (*)	**9,226**	-	-	**10,601**	-	-
Equity instruments – listed(**)	**1,220**	-	-	**5,318**	-	-
Total available- for-sale securities at fair value	**4,398,316**			**4,300,148**		
Available-for-sale securities at cost						
Equity instruments – unlisted (***)	10,569	-	-	8,684	-	-
Total available- for- sale securities	**4,408,885**			**4,308,832**		
Held-to-maturity securities at amortized cost						
Debt instruments						
Turkish government bonds	292,956	10.72%-11.72%	-	-	-	-
Eurobonds issued by the Turkish government	-	-	-	20,416	-	5.12%-5.28%
Total held-to-maturity securities	**292,956**			**20,416**		
Total investment securities	**4,701,841**			**4,329,248**		

(*) After the sale of the Group's 90.01% shares in TEB Finansal Kiralama A.Ş.; the remaining 9.99% shares are presented as available-for-sale financial assets and accounted for at fair value in accordance with IAS 39. The corresponding amount is TL 12,594. With the sale of the Group's shares as at 29 September 2011, the corresponding amount became TL 9,227.

(**) Includes TL 1,220 (31 December 2012: TL 1,172) of investment fund participation certificate.

(***) All unquoted available for sale equities are recorded at fair value except for the Group's investment of TL10,569 which is recorded at cost since its fair value cannot be reliably estimated (31 December 2012: TL 8,684).

Unlisted equity securities classified as available-for-sale securities represent the Group's equity holdings in the companies, shares of which are not publicly traded. Consequently they are reflected at cost less reserve for impairment, if any, as a reliable estimate of their fair values could not be made.

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

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND INVESTMENT SECURITIES (continued)

Loaned Securities:

Carrying value of debt instruments given as collateral under repurchase agreements, which are included in the related portfolio are:

	31 December 2013	31 December 2012
Financial assets at fair value through profit and loss	-	-
Available-for-sale securities	1,097,509	42,596
Held-to-maturity securities	-	-
Carrying value of securities given as collateral under repos	**1,097,509**	**42,596**
Related liability	**1,062,443**	**40,916**

As of 31 December 2013, government securities with carrying values of TL 738,372 (31 December 2012: TL 307,854) are pledged to the Central Bank and the İstanbul Takas ve Saklama Bankası Anonim Şirketi (İstanbul Settlement and Custody Bank Incorporation) and Vadeli İşlem Opsiyon Borsası (Turkish Derivatives Exchange) for regulatory requirements and as a guarantee for stock exchange, money market operations and derivatives.

TL 1,812,900 (31 December 2012: TL 1,216,316) of debt securities included in the trading, investment and loaned securities portfolios have floating interest rates, whereas the rest of the debt securities have fixed interest rates.

Gains and losses from investment securities arise from derecognition of available-for-sale securities.

The movement in investment securities (including those classified as loaned securities) is summarized as follows:

	31 December 2013			31 December 2012		
	Available-for-sale	Held-to-maturity	Total	Available-for-sale	Held-to-maturity	Total
At 1 January	4,308,832	20,416	4,329,248	4,697,945	21,224	4,719,169
Exchange differences	13,329	5,727	19,056	(32,981)	(808)	(33,789)
Additions	6,909,289	-	6,909,289	1,871,048	-	1,871,048
Disposals (sale and redemption)	(6,331,629)	(27,776)	(6,359,405)	(2,370,095)	-	(2,370,095)
Transfer	(287,008)	287,008	-	-	-	-
Changes in amortized cost and fair value	(203,928)	7,581	(196,347)	142,915	-	142,915
Total	**4,408,885**	**292,956**	**4,701,841**	**4,308,832**	**20,416**	**4,329,248**

The Group has not reclassified any financial asset as one measured at amortized cost rather than at fair value during the year.

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

6. LOANS AND RECEIVABLES

	31 December 2013			31 December 2012		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign Currency		Turkish Lira	Foreign Currency
Commercial	24,496,252	6.00%-30.00%	2.15%-7.5%	19,640,254	6.25%-33.00%	2.40%-13.20%
Consumer	10,300,655	7.56%-20.88%	1.13%-8.5%	7,934,970	8.76%-25.56%	2.50%-9.50%
Credit cards	2,622,063	7.30%-9.95%	-	1,838,782	9.11%-10.72%	-
Other	74,044	9.06%-27.81%	-	88,238	8.32%-20.82%	-
Total performing loans	**37,493,014**			**29,502,244**		
Loans in arrears	940,714			714,897		
Less: Allowance for individually impaired loans	(686,954)			(491,058)		
Less: Allowance for collectively impaired loans	(282,665)			(238,415)		
Total	**37,464,109**			**29,487,668**		

Loans and receivables amounting to TL 6,985,467 (31 December 2012: TL 7,513,709) have floating interest rates and the rest have fixed interest rates.

The portfolio reserve for impairment is provided based on past experience, management’s assessment of current economic condition, the quality and inherent risk in the credit portfolio of the Group.

31 December 2013	Commercial	Consumer	Credit Cards	Other	Total
Neither past due nor impaired	23,649,630	9,744,043	2,463,627	74,044	35,931,344
Past due not impaired	846,622	556,612	158,436	-	1,561,670
Individually impaired	621,980	175,386	143,348	-	940,714
Total gross	**25,118,232**	**10,476,041**	**2,765,411**	**74,044**	**38,433,728**
Less: allowance for individually impaired loans	(469,817)	(103,353)	(113,784)	-	(686,954)
Less: allowance for collectively impaired loans	(186,073)	(61,576)	(35,016)	-	(282,665)
Total allowance for impairment	(655,890)	(164,929)	(148,800)	-	(969,619)
Total net	**24,462,342**	**10,311,112**	**2,616,611**	**74,044**	**37,464,109**

31 December 2012	Commercial	Consumer	Credit Cards	Other	Total
Neither past due nor impaired	18,901,079	7,599,960	1,591,411	88,238	28,180,688
Past due not impaired	739,175	335,010	247,371	-	1,321,556
Individually impaired	502,171	110,837	101,889	-	714,897
Total gross	**20,142,425**	**8,045,807**	**1,940,671**	**88,238**	**30,217,141**
Less: allowance for individually impaired loans	(345,248)	(67,048)	(78,762)	-	(491,058)
Less: allowance for collectively impaired loans	(154,948)	(52,800)	(30,667)	-	(238,415)
Total allowance for impairment	**(500,196)**	**(119,848)**	**(109,429)**	**-**	**(729,473)**
Total net	**19,642,229**	**7,925,959**	**1,831,242**	**88,238**	**29,487,668**

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

6. LOANS AND RECEIVABLES (continued)

A reconciliation of the allowance for individual impairment losses on loans and receivables by classes is as follows;

	Commercial	Consumer	Credit Cards	Total
At 1 January 2013	**345,248**	**67,048**	**78,762**	**491,058**
Charge for the year	259,415	69,609	77,885	406,909
Recoveries	(68,681)	(20,379)	(20,887)	(109,947)
Sale of non-performing loans (*)	(74,998)	(12,925)	(21,976)	(109,899)
Exchange difference	8,833	-	-	8,833
At 31 December 2013	**469,817**	**103,353**	**113,784**	**686,954**

	Commercial	Consumer	Credit Cards	Total
At 1 January 2012	**302,087**	**100,987**	**148,558**	**551,632**
Charge for the year	244,132	46,476	52,884	343,492
Recoveries	(99,533)	(12,244)	(17,347)	(129,124)
Sale of non-performing loans (**)	(100,450)	(68,171)	(105,333)	(273,954)
Exchange difference	(988)	-	-	(988)
At 31 December 2012	**345,248**	**67,048**	**78,762**	**491,058**

(*) TL117,132 of the non-performing loans portfolio of the Bank with TL115,611 provision has been sold to LBT Varlık Yönetim A.Ş. for TL9,310 which has been collected as of 28 June 2013 with the completion of the necessary procedures, and the related non-performing loans have been written off from the records.

(**) TL 124,050 of non-performing loans portfolio with TL 107,511 provision has been sold to Girişim Varlık Yönetimi A.Ş. for TL 16,878 which has been collected as of 11 April 2012 with the completion of necessary procedures, and the related non-performing loans have been written off from the records. The profit in the amount of TL 361 has been netted off from sales of non-performing loans.

TL 188,710 of the non-performing loans portfolio with TL 175,044 provision has been sold to LBT Varlık Yönetimi A.Ş. for TL 22,222 which has been collected as of 30 November 2012 with the completion of the necessary procedures, and the related non-performing loans have been written off from the records. The profit in the amount of TL 8,556 has been netted off from sales of non-performing loans.

Movements in the reserve for impairment on loans and receivables:

	31 December 2013	31 December 2012
Reserve at beginning of year	729,473	774,079
Provision for impairment	452,850	361,149
Recoveries	(111,943)	(130,576)
Provision net of recoveries	340,907	230,573
Sale of non-performing loans	(109,899)	(273,954)
Exchange differences	9,138	(1,225)
Reserve at the end of the year	**969,619**	**729,473**

The fair value of collaterals, capped with the respective outstanding loan balance, that the Group holds relating to loans individually impaired at 31 December 2013 is TL 226,038 (31 December 2012: TL 210,582).

The fair value of collaterals, capped with the respective outstanding loan balance relating to loans individually impaired:

	Current Period	Prior Period
Mortgage	176,808	172,046
Vehicle	43,046	31,756
Cash	211	151
Other	5,973	6,629
Total	**226,038**	**210,582**

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

6. LOANS AND RECEIVABLES (continued)

Collateral and credit enhancements obtained by taking possession:

31 December 2013	Commercial	Consumer	Total
Residential, commercial or industrial property	78,829	7,516	86,345
Other	160	-	160
Total	**78,989**	**7,516**	**86,505**

31 December 2012	Commercial	Consumer	Total
Residential, commercial or industrial property	55,129	8,587	63,716
Other	375	-	375
Total	**55,504**	**8,587**	**64,091**

The Group employs independent appraisers in determining the current fair values of its real estates. Provision for impairment loss amounting to TL 4,961 is booked for real estates held for resale as per the appraisals performed as of 31 December 2013 (31 December 2012: TL 1,291).

Aging analysis of past due but not impaired loans per class of financial instruments:

31 December 2013	Less than 30 days	31-60 days	61-90 days	Total
Loans and receivables				
Commercial	554,192	166,470	125,960	846,622
Consumer	285,354	209,690	61,568	556,612
Credit cards	158,357	2	77	158,436
Total	**997,903**	**376,162**	**187,605**	**1,561,670**

31 December 2012	Less than 30 days	31-60 days	61-90 days	Total
Loans and receivables				
Commercial	424,859	181,511	132,805	739,175
Consumer	72,792	180,147	82,071	335,010
Credit cards	244,220	32	3,119	247,371
Total	**741,871**	**361,690**	**217,995**	**1,321,556**

Of the total aggregate amount of gross past due but not yet impaired loans and receivables, the fair value of collaterals, capped with the respective outstanding total past due and not past due loan balances of the customer, that the Group held as at 31 December 2013 was TL 1,049,199 (31 December 2012: TL 849,145).

The fair value of collaterals, capped with the respective outstanding loan balance relating to those that are past due but not impaired:

	Current Period	Prior Period
Mortgage	775,253	613,921
Vehicle	179,319	126,438
Cash	11,439	12,788
Other	83,188	95,998
Total	**1,049,199**	**849,145**

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

7. FACTORING RECEIVABLES

	31 December 2013			31 December 2012		
	Amount	**Effective interest rate**		**Amount**	**Effective interest rate**	
		Turkish Lira	**Foreign Currency**		**Turkish Lira**	**Foreign Currency**
Factoring receivables	1,097,227	5.75%-35.00%	1.60%-9.23%	759,441	7.00%-40.00%	1.68%-7.00%
Receivables in arrears	24,417	-	-	10,502	-	-
Less: Reserve for impairment	(18,111)	-	-	(7,131)	-	-
Less: Deferred income	(10,090)	-	-	(9,206)	-	-
Net factoring receivables	**1,093,443**			**753,606**		

As of 31 December 2013, all of the factoring receivables have fixed interest rates (31 December 2012: All of factoring receivables have fixed interest rates).

Movements in the reserve for impairment:

	31 December 2013	**31 December 2012**
Reserve at beginning of year	7,131	13,913
Provision for impairment	9,477	8,264
Recoveries	(2,720)	(351)
Provision net of recoveries	6,757	7,913
Increase due to the merger	4,223	-
Loans written off during the year (*)	-	(14,695)
Reserve at end of the year	**18,111**	**7,131**

(*) TL 15,120 of non-performing loans portfolio with TL 15,120 provision has been sold to LBT Varlık Yönetimi A.Ş. for TL 425 which has been collected as of 20 December 2012 with the completion of necessary procedures, and the related non-performing loans have been written off from the records. The profit in the amount of TL 425 has been netted off from sales of non-performing loans.

There are no collaterals that TEB Faktoring holds relating to factoring receivables individually determined to be impaired at 31 December 2013 (31 December 2012: nil).

8. PREMISES AND EQUIPMENT

	Land and Buildings	**Vehicles**	**Other**	**Total**
At 1 January 2012				
Cost	130,970	814	734,769	866,553
Accumulated depreciation	(33,764)	(584)	(567,894)	(602,242)
Net book amount	**97,206**	**230**	**166,875**	**264,311**
Year ended 31 December 2012				
Opening net book amount	97,206	230	166,875	264,311
Exchange adjustment	(300)	-	(17)	(317)
Additions	-	195	74,428	74,623
Disposals	(10,598)	-	(1,686)	(12,284)
Depreciation charge for the year, net	(3,313)	(120)	(66,627)	(70,060)
Closing net book amount	**82,995**	**305**	**172,973**	**256,273**
At 31 December 2012				
Cost	116,968	1,003	783,585	901,556
Accumulated depreciation	(33,973)	(698)	(610,612)	(645,283)
Net book amount	**82,995**	**305**	**172,973**	**256,273**
Year ended 31 December 2013				
Opening net book amount	82,995	305	172,973	256,273
Exchange adjustment	1,865	-	59	1,924
Additions	-	261	145,691	145,952
Disposals	-	(2)	(983)	(985)
Depreciation charge for the year, net	(3,130)	(143)	(67,004)	(70,277)
Increase due to the merger	-	-	70	70
Closing net book amount	**81,730**	**421**	**250,806**	**332,957**
At 31 December 2013				
Cost	119,319	1,155	867,503	987,977
Accumulated depreciation	(37,589)	(734)	(616,697)	(655,020)
Net carrying amount	**81,730**	**421**	**250,806**	**332,957**

As of 31 December 2013 the cost of fully depreciated items equals TL 472,185 (31 December 2012: TL 460,709).

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

9. INTANGIBLE ASSETS

	Software Licenses and Other
At 1 January 2012	
Cost	112,701
Accumulated depreciation	(92,568)
Net book amount	**20,133**
Year ended 31 December 2012	
Opening net book amount	20,133
Exchange adjustment	(33)
Additions	17,666
Disposals	(10)
Depreciation charge for the year, net	(12,744)
Closing net book amount	**25,012**
At 31 December 2012	
Cost	129,041
Accumulated depreciation	(104,029)
Net book amount	**25,012**
Year ended 31 December 2013	
Opening net book amount	25,012
Exchange adjustment	143
Additions	45,696
Disposals	-
Depreciation charge for the year, net	(15,164)
Increase due to the merger	13
Closing net book amount	**55,700**
At 31 December 2013	
Cost	177,345
Accumulated depreciation	(121,645)
Net carrying amount	**55,700**

The cost of fully amortized items amounted to TL 96,988 as of 31 December 2013 (31 December 2012: TL 82,414).

10. GOODWILL

The goodwill amounting to TL 420,645, recognized on 14 February 2011 with the acquisition of Fortis Bank A.Ş.

Movements on goodwill in the current period:

	1 January- 31 December 2013	**1 January - 31 December 2012**
Gross value at the beginning of the period	**420,645**	**420,645**
Accumulated depreciation (-)	-	-
Movements within the period :		
Additional goodwill	-	-
Goodwill written off due to discontinued operations in current period or complete /partial sale of an asset (-)	-	-
Gross value at the end of the period	**420,645**	**420,645**
Accumulated amortization (-)	-	-
Net book value at the end of the period	**420,645**	**420,645**

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

11. OTHER ASSETS

	31 December 2013	31 December 2012
Receivable from credit card payables	338,935	267,625
Cheque clearing accounts	291,363	474,799
Collaterals for derivatives	153,315	191,870
Other transitory accounts	104,898	35,772
Prepaid expenses	94,571	42,597
Assets held for resale, net of impairment (Note 8)	86,505	64,091
Others	62,754	46,854
Total	**1,132,341**	**1,123,608**

12. DEPOSITS

Deposits from other banks

	31 December 2013			31 December 2012		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign Currency		Turkish Lira	Foreign Currency
Demand	107,038	-	-	193,156	-	-
Time	1,528,534	0.50%-9.10%	0.25%-2.00%	738,630	1.75%-11.20%	0.07%-2.00%
Total	**1,635,572**			**931,786**		

Customers' deposits

	31 December 2013			31 December 2012		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign currency		Turkish Lira	Foreign Currency
Saving						
Demand	2,080,861	4.00%	0.25%-0.50%	1,602,126	-	0.60%-0.90%
Time	17,400,078	4.50%-7.25%	0.90%-2.20%	14,781,732	3.50%-15.00%	0.25%-5.10%
	19,480,939			**16,383,858**		
Commercial and other						
Demand	3,856,999	3.25%	1.00%	3,020,430	-	1.00%-1.50%
Time	10,559,636	3.00%-10.25%	0.25%-4.00%	9,623,860	2.50%-12.00%	0.25%-4.00%
	14,416,635			**12,644,290**		
Total	**33,897,574**			**29,028,148**		

Included in customer accounts were deposits of TL 1,363,039 (31 December 2012: TL 924,662) held as collateral for cash and non-cash loans given.

Other money market deposits

	31 December 2013			31 December 2012		
	Amount	Effective interest rate		Amount	Effective interest rate	
		Turkish Lira	Foreign Currency		Turkish Lira	Foreign Currency
Obligations under repurchase agreements:						
-Due to customers and other financial institutions	-	-	-	40,916	4.86%-5.25%	-
-Due to banks	1,062,443	4.49%-7.75%	-	-	-	-
	1,062,443			**40,916**		

As of 31 December 2013 and 31 December 2012 all deposits and money market deposits have fixed interest rate.

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

13. MARKETABLE SECURITIES ISSUED

	31 December 2013		31 December 2012	
	Turkish Lira	**Foreign Currency**	**Turkish Lira**	**Foreign Currency**
Bank Bonds	507,046	-	333,689	-
Bank Bills	203,230	-	160,548	-
Total	**710,276**	**-**	**494,237**	**-**

The bond issued by the Parent Bank on 4 March 2013 with a nominal value of TL99,711 maturity of 405 days, with due date of 14 April 2014, with an interest rate of 6.84908% and with an annual compound rate of 6.82406% has started to be publicly traded in bonds and bills markets with the ISIN code “TRSTEBK41416”.

The bond issued by the Parent Bank on 20 May 2013 with a nominal value of TL200,000 maturity of 386 days, with due date of 11 June 2014, with an interest rate of 5.81603% and with an annual compound rate of 5.80650% has started to be publicly traded in bonds and bill market with the ISIN code “TRSTEBK61414”.

The bond issued by the Parent Bank on 7 October 2013 with a nominal value of TL350,000 maturity of 148 days, with due date of 5 March 2014, with an interest rate of 7.84266% and with an annual compound rate of 8.02640% has started to be publicly traded in bonds and bills markets with the ISIN code “TRQTEBK31411”.

The bond issued by the Parent Bank on 9 December 2013 with a nominal value of TL250,000 maturity of 169 days, with due date of 28 May 2014, with an interest rate of 8.85178% and with an annual compound rate of 9.0626% has started to be publicly traded in bonds and bill market with the ISIN code “TRQTEBK51419”.

14. FUNDS BORROWED

	31 December 2013		
		Effective interest rate	
	Amount	**Turkish Lira**	**Foreign currency**
Short-term			
Fixed interest	6,186,145	5.00%-11.62%	0.44%-4.35%
Floating interest	1,440,097	4.75%-7.25%	0.64%-4.15%
Medium/long-term			
Fixed interest	282,106	8.73%-10.55%	1.70%-4.52%
Floating interest	101,893	5.25%-5.75%	2.07%-3.13%
Floating interest subordinated loan	1,770,856	-	2.49%-6.10%
Total	**9,781,097**		

	31 December 2012		
		Effective interest rate	
	Amount	**Turkish Lira**	**Foreign currency**
Short-term			
Fixed interest	4,347,337	5.75%-15.12%	0.05%-4.28%
Floating interest	1,199,210	6.25%-9.25%	0.25%-4.26%
Medium/long-term			
Fixed interest	326,364	10.55%-11.62%	1.7%-4.52%
Floating interest	164,076	7.75%-9.25%	0.61%-4.46%
Floating interest subordinated loan	1,032,310	-	3.91%-5.5%
Total	**7,069,297**		

Repayment plan of medium and long-term borrowings is as follows:

	31 December 2013		31 December 2012	
	Fixed rate	**Floating rate**	**Fixed rate**	**Floating rate**
2014	-	-	94,021	98,307
2015	25,644	134,892	-	90,572
2016	64,590	374	66,515	-
2017	-	290,646	-	246,325
2018	73,922	-	71,172	-
Thereafter	117,950	1,446,837	94,656	761,182
Total	**282,106**	**1,872,749**	**326,364**	**1,196,386**

14. FUNDS BORROWED (continued)

The Bank has signed an agreement with the International Finance Corporation (IFC) on 27 June 2005, for a subordinated loan. The facility is a USD 50 million subordinated loan, with a maturity of 15 July 2015 and with an interest rate of LIBOR+3.18%.

The Bank has obtained a primary subordinated loan by issuing a bond amounting to USD 100 million as of 31 July 2007. The investor of the bond is IFC. The maturity of the borrowing is indefinite with semi-annually interest payment. The interest rate is defined as LIBOR+3.5% until 31 July 2017. In case the borrowed amount is not repaid at that date, the interest rate will be revised as LIBOR + 5.25%. Notes are issued as perpetual.

The Bank has obtained secondary subordinated loans by issuing a bond amounting to EUR 75 million as of 4 November 2011 and a bond amounting to EUR 100 million as of 21 December 2011. The bond issue on 21 December 2011 amounting to EUR 100 million is added up with the first issue of EUR 75 million and together will be followed as EUR 175 million. Since the coupon rate of the issue amounting to EUR 100 million is semi-annual Euribor + 5.25% and two issues stated above will be merged and the merged issue will carry the coupon rate of the first issue (Euribor + 4.75% on an annual basis), the price of EUR 100 million issue has been determined as 96.026% (the price determined as the 12 month interest difference between two issues discounted by new issues semi-annual coupon rate of Euribor + 5.25%). As interest payment periods of the new issue will be same with the first one, 47-day interest accrual amounting to EUR 852,537.78 related to the period between 4 November 2011 and 21 December 2011 was paid to the Bank by the investor purchasing the second issue. On 21 December 2011, total net amount of EUR 96,878,527.78 is transferred to the bank accounts.

The Bank, during its Board of Directors' meeting dated 8 May 2012 has resolved to issue a debt instrument as Seconday Subordinated debt instrument with a value of USD 65 million on 14 May 2012. The semiannually interest rate of the issuance is determined as USD Libor + %5.75. The due date of the debt instrument is determined as 14 May 2024 and for the first seven years there is no option to repay before its due date. The debt instrument can be amortized on 14 May 2019 with the decision of the Board of Directors and upon the approval of Banking Regualtion and Supervision Agency.

The Parent Bank has resolved to issue a Secondary Subordinated Debt in the amount of EURO 100 million on 20 July 2012. The interest rate of the issuance has been determined as semi-annualy EURIBOR + 4.75%. The due date of the debt instrument is 20 July 2024 and there is no option to repay within the first seven years. The debt instrument can be amortized on 20 July 2019 with the resolution of the BoD and upon the approval of the BRSA.

The Parent Bank has resolved to issue a Secondary Subordinated Debt in the amount of EURO 125 million on 25 June 2013. The interest rate of the issuance has been determined as semi-annualy EURIBOR + 2.1%. The due date of the debt instrument is 27 June 2023 and there is no option to repay within the first five years. The debt instrument can be amortized on 27 June 2018 with the resolution of the BoD and upon the approval of the BRSA.

The Parent Bank has resolved to issue a Secondary Subordinated Debt in the amount of USD 65 million on 25 June 2013. The interest rate of the issuance has been determined as semi-annualy LIBOR + 3.40%. The due date of the debt instrument is 27 June 2023 and there is no option to repay within the five seven years. The debt instrument can be amortized on 28 June 2018 with the resolution of the BoD and upon the approval of the BRSA.

Each of the seven of the above facilities match BRSA's subordinated loan-capital definitions and contribute to the Bank's capital adequacy ratio in a positive manner, as well as creating long term financial.

As of 31 December 2013, the Bank has a syndication loan of EUR 310,000,000 and USD 140,000,000 obtained on 22 August 2013 with a maturity of 27 August 2014 under foreign borrowings.

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

15. OTHER LIABILITIES AND PROVISIONS

	31 December 2013	31 December 2012
Other liabilities		
Cheque clearing account	561,501	829,261
Payables to credit card member firms	468,064	421,560
Payables to banks for credit cards receivables	399,430	349,427
Deferred insurance commission income	212,200	214,960
Collaterals for derivatives	106,668	6,797
Taxes and compulsory surcharges other than on income	92,687	76,465
Bonus premium accrual	72,177	66,630
Other transitory accounts	60,229	33,420
Trade and other payables	52,935	44,434
Payables for promotions of credit cards and banking services	12,204	12,044
Blocked bank cheques	9,169	4,131
Payment orders	423	1,097
Others	77,854	59,492
	2,125,541	**2,119,718**
Provisions		
Employee termination benefits	89,348	93,125
Provision for legal cases	35,796	45,612
Reserve for impairment of non-cash loans (specific and portfolio)	35,606	31,834
Unused vacation pay liability	26,725	28,114
Provision for restructuring	-	516
Provisions for possible outcomes of certain tax disputes	735	735
Other provisions	8,984	4,975
	197,194	**204,911**
Total	**2,322,735**	**2,324,629**

Employee Termination Benefits

In accordance with existing social legislation, TEB and its subsidiaries incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL 3,254.44 (full TL) and TL 2,917.27 (full TL) at 31 December 2013 and 2012, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as of 31 December 2013 and 2012, the Group reflected a liability calculated using the Projected Unit Credit Method and based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds at the balance sheet date.

The principal actuarial assumptions used in the calculation of the total liability at the balance sheet dates are as follows:

	31 December 2013	31 December 2012
Discount rate	9.92%	6.91%
Expected rate of inflation	6.45%	4.78%
Salary increase rate above inflation rate	1.00%	1.00%

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

15. OTHER LIABILITIES AND PROVISIONS (continued)

Employee Termination Benefits (continued)

Movements in the present value of the employee termination benefit obligations in the current year were as follows:

	1 January-31 December 2013	1 January-31 December 2012
Opening defined benefit obligation	93,125	60,277
Increase due to the merger	64	-
Current service cost	12,590	8,594
Interest cost	6,789	5,590
Actuarial (gains)/losses	(19,609)	24,466
Settlement cost	1,745	6,164
Benefits paid	(5,356)	(11,966)
Closing defined benefit obligation, recognized in the balance sheet	**89,348**	**93,125**

Amounts recognized in profit and loss in respect of employee termination benefit plan are as follows:

	31 December 2013	31 December 2012
Current service cost	12,590	8,594
Interest cost	6,789	5,590
Settlement cost	1,745	6,164
Total	**21,124**	**20,348**

Retirement Benefits

The employees who have joined the Bank as a consequence of the merger of TEB and Fortis Bank are members of the "Pension Fund Foundation" established in accordance with the Social Security Law No.506, Article No.20.

The liabilities described in the Note 2.3 Summary of Significant Accounting Policies, Judgements and Estimates – Employee Benefits section which may arise during the transfer have been calculated by the actuary based on the principles of the related regulation, whereas the liabilities in connection with other social rights and benefits which will not be undertaken by the SSI after the transfer have been calculated by the actuary based on IAS 19 principles. Based on the actuarial reports prepared as of 31 December 2013 and 31 December 2012, the Retirement Fund has a surplus. Since the Bank has no legal rights to carry the economic benefits arising from repayments of Pension Funds and/or decreases in future contributions at present value; no asset has been recognized in the balance sheet.

Based on the determined assumptions,

Transferrable Retirement and Health Liabilities:	**31 December 2013**	**31 December 2012**
Net Present Value of Transferrable Retirement Liabilities	(915,853)	(823,577)
Net Present Value of Transferrable Retirement and Health Contributions	525,943	534,823
General Administration Expenses	(9,159)	(8,235)
Present Value of Pension and Medical Benefits Transferable to SSF (1)	(399,069)	(296,989)
Fair Value of Plan Assets (2)	1,264,472	1,179,000
Asset Surplus over Transferable Benefits ((2)-(1)=(3))	865,403	882,011
Non-Transferable Benefits (4)	(219,301)	(183,383)
Asset Surplus over Total Benefits ((3)-(4))	646,102	698,628

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

15. OTHER LIABILITIES AND PROVISIONS (continued)

Employee Termination Benefits (continued)

Distribution of total assets of the Retirement Fund as of 31 December 2013 and 31 December 2012 is presented below:

	31 December 2013	31 December 2012
Bank placements	1,159,056	1,060,309
Government Bonds and Treasury Bill, Fund and Accrual Interest Income	35,742	43,563
Tangible assets	68,267	66,840
Other	1,407	8,288
Total	**1,264,472**	**1,179,000**

Actuarial assumptions used in valuation of liabilities except for transferrable liabilities based on IAS 19 are as follows:

	31 December 2013	31 December 2012
Discount Rate	10.10%	7.00%
Expected Inflation Rate	6.50%	4.61%

Medical inflation is expected more than 40% for two periods. In order to represent the expected mortality rates before and after the retirement, CSO 2001 (31 December 2012: CSO 2001) Female/Male mortality table is used.

16. INCOME TAXES

Corporate Tax

The Group is subject to corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on each company’s results for the period.

Corporate tax is applied on taxable corporate income, which is calculated from the statutory accounting profit by adding back non-deductible expenses, and by deducting dividends received from resident companies, other exempt income and investment incentives utilized.

The corporate tax rate was 20% in 2013 and 2012 in Turkey, 25% in Netherlands for Economy Bank.

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate was 20% for 2013 (2012: 20%).

Losses are allowed to be carried for maximum 5 years to be deducted from the taxable profits of the following years. However, losses incurred cannot be deducted from the profits incurred in the prior years retrospectively.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1st and 25th of the fourth month following the close of the fiscal year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within the following five years.

Income Withholding Tax

In addition to corporate taxes, companies should also calculate income withholding taxes on dividends distributed, if any, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax was 10% starting from 24 April 2003. This rate was changed to 15% with the Decree of the Council of Ministers of the Republic (Decree No. 2006/10731) commencing from 23 July 2006. Undistributed dividends incorporated in share capital are not subject to income withholding taxes.

As of 31 December 2013, effective tax rate of the consolidated foreign subsidiaries established in the Netherlands is 25 % (31 December 2012: 25%).

As of 31 December 2013 and 2012 advance income taxes are netted off with the current income tax liability as stated below:

	31 December 2013	31 December 2012
Income tax liability	132,760	248,683
Advance income taxes	(117,592)	(179,107)
	15,168	**69,576**

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

16. INCOME TAXES (continued)

Major components of income tax expense for the year ended 31 December 2013 and 2012 are:

	31 December 2013	31 December 2012
Consolidated income statement		
Current income tax (charge)/benefit	(66,319)	(253,432)
Relating to origination and reversal of temporary differences	(93,217)	105,971
Income tax (charge)/benefit reported in consolidated income statement	**(159,536)**	**(147,461)**

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

	31 December 2013	31 December 2012
Profit before income tax	**801,385**	**730,204**
At Turkish statutory income tax rate of 20%	(160,277)	(146,041)
Income not subject to tax	1,708	140
Other, net (including effects of disallowables, permanent differences and different tax rates applied in different jurisdictions)	(967)	(1,560)
Income tax	**(159,536)**	**(147,461)**

Deferred income tax

Deferred income tax at 31 December 2013 and 2012 relates to the following:

	Consolidated Balance Sheet		Change in Deferred Income Tax	
	2013	2012	2013	2012
Deferred income tax liabilities				
Difference between tax and reporting bases of premises and equipment and intangible assets	8,874	6,013	2,861	4,636
Effect of valuation of derivatives and hedge accounting	53,976	(23,099)	77,075	(33,653)
Valuation differences of trading and investment securities	10,169	(13,172)	23,341	(5,997)
Gross deferred income tax liabilities	**73,019**	**(30,258)**	**103,277**	**(35,014)**
Deferred income tax assets				
Impairment provisions on loans and receivables	78,287	66,584	11,703	19,904
Deferred fee and commission income	62,163	61,451	712	3,833
Employee termination benefits and vacation pay liability	23,215	24,248	(1,033)	6,564
Bonus premium accrual	14,435	13,326	1,109	5,550
Others	11,536	659	10,877	8,280
Gross deferred income tax assets	**189,636**	**166,268**	**23,368**	**44,131**
Deferred income tax asset, net	**116,617**	**196,526**	**(79,909)**	**79,145**

	31 December 2013	31 December 2012
Deferred income tax credit /(charge) recognized in income statement, net	(93,217)	105,971
Deferred income tax (charge)/ credit recognized in other comprehensive income	14,572	(24,057)
- Available for sale	39,865	(40,340)
- Cash flow hedge	(20,463)	13,541
- Actuarial gains and losses	(4,830)	2,742
Increase due to the merger	231	-
Foreign exchange effect	312	(27)
Other	(1,807)	-

Reflected as:

	31 December 2013	31 December 2012
Deferred tax asset	116,617	196,526
Deferred tax liability	-	-

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

16. INCOME TAXES (continued)

Deferred income tax (continued)

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

	2013	2012
Balance at 1 January	196,526	117,381
Increase due to the merger	231	-
Deferred income tax (charge)/ credit recognized in other comprehensive income	14,572	(24,057)
- Available for sale	39,865	(40,340)
- Cash flow hedge	(20,463)	13,541
- Actuarial gains and losses	(4,830)	2,742
Deferred income tax credit / (charge) recognized in income statement	(93,217)	105,971
Foreign exchange effect	312	(27)
Other	(1,807)	-
Balance at 31 December	**116,617**	**196,526**

17. DERIVATIVES

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

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

	31 December 2013			31 December 2012		
Derivatives held-for-trading	**Fair value assets**	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Fair value assets**	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**
Forward contracts	178,236	62,348	8,907,614	33,801	38,238	6,285,148
Currency swap contracts	248,722	213,564	20,116,856	78,075	99,729	11,897,754
Cross currency swap contracts	7,430	15,174	732,464	133	15,496	364,205
Interest rate swap contracts	44,514	37,039	7,295,012	14,088	14,846	2,325,340
Call & put option contracts	250,368	154,706	20,503,877	40,613	66,506	17,125,565
Other	-	-	2,201	-	-	-
	729,270	**482,831**	**57,558,024**	**166,710**	**234,815**	**37,998,012**

Derivatives settled on a gross basis

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years
Derivatives held for trading:					
Foreign exchange derivatives:					
- Inflow	7,530,037	7,342,352	8,872,139	1,436,849	-
- Outflow	7,433,868	7,270,519	8,726,524	1,399,632	-
Interest rate derivatives:					
- Inflow	3,732	248,352	334,058	49,628	3,290
- Outflow	14,002	16,075	42,538	38,654	3,100
Derivatives held for hedging:					
Foreign exchange derivatives:					
- Inflow	18,559	49,580	185,001	236,823	1,177
- Outflow	16,296	500,842	139,562	179,368	630
Total inflow	**7,552,328**	**7,640,284**	**9,391,198**	**1,723,300**	**4,467**
Total outflow	**7,464,166**	**7,787,436**	**8,908,624**	**1,617,654**	**3,730**

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

17. DERIVATIVES (continued)

Fair value hedge

The Group applies fair value hedge accounting in order to avoid the effects of interest rate changes in the market by matching a portion of its swap portfolio with its loan portfolio. As of 31 December 2013, nominal value of derivative instruments for hedging purposes is TL599,491 (31 December 2012: TL1,441,536) and net fair value is TL40,563 (31 December 2012: TL32,389 negative) while fair value of the hedged item loans is TL3,404 (31 December 2012: TL16,309). The Bank accounts TL78,670 income (31 December 2012: TL22,865 expense) for derivative instruments for hedging purposes and TL12,905 expense (31 December 2012: TL4,755 income) from hedged item loans in the financial statements. The group also has a financial protection accounting transaction as of 18 July 2013 whereby it swapped available for sale with a nominal value of TL12,700 with a cross money interest swap transaction amounting to TL12,575 in order to protect against changes in market values.

	31 December 2013			31 December 2012		
Derivatives used for fair value hedging purposes	**Fair value assets**	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Fair value assets**	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**
Cross currency swap contracts	56,962	15,616	612,066	5,064	47,696	1,441,536
	56,962	**15,616**	**612,066**	**5,064**	**47,696**	**1,441,536**

Cash flow hedge

The Group has adopted cash flow hedge accounting by matching its swap portfolio having total buy-sell nominal amounting to TL3,916,034 since 2011 with the deposit portfolio having maturity of up to 90 days. Effective portion of TL40,232 debit (31 December 2012: TL62,082 credit) accounted for under equity is presented after deduction of its deferred tax effect of TL8,046 credit (31 December 2012: TL12,614 debit) in the financial statements. In 2013, the ineffective portion of TL1,427 income (31 December 2012: TL3,455 expense) is accounted for under income statement.

	31 December 2013			31 December 2012		
Derivatives used for cash flow hedging purposes	**Fair value assets**	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**	**Fair value assets**	**Fair value liabilities**	**Notional amount in Turkish Lira equivalent**
Interest rate swap contracts	55,283	53,822	3,916,034	11,819	120,811	3,153,677
	55,283	**53,822**	**3,916,034**	**11,819**	**120,811**	**3,153,677**

18. SHARE CAPITAL

	31 December 2013	**31 December 2012**
Total number of shares, TL 1.00 (full TL) par value	2,204,390 Thousand	2,204,390 Thousand

As of 31 December 2013 and 31 December 2012, the composition of shareholders and their respective ownerships are summarized below:

	31 December 2013		31 December 2012	
	Amount	**%**	**Amount**	**%**
TEB Holding A.Ş.	1,212,414	55.00	1,212,414	55.00
BNP Yatırımlar Holding A.Ş.	518,342	23.51	514,616	23.34
BNP Paribas Fortis Yatırımlar Holding A.Ş.	380,311	17.25	376,584	17.08
Publicly traded	92,222	4.18	99,556	4.52
Other shareholders	1,101	0.06	1,220	0.06
	2,204,390	**100.00**	**2,204,390**	**100.00**
Inflation restatement effect	200,262		200,262	
Total	**2,404,652**		**2,404,652**	

7% of the Bank’s remaining net income after tax subsequent to deducting legal reserves and first dividends, corresponding to the Bank’s shares of TL 30 (in full TL) is distributed to the founder shares.

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

19. LEGAL RESERVES, RETAINED EARNINGS AND DIVIDENDS PAID AND PROPOSED

Movement of Legal Reserves and Retained Earnings

	31 December 2013				31 December 2012			
	Legal Reserves	Other Capital Reserves	Retained Earnings	Total	Legal Reserves	Other Capital Reserves	Retained Earnings	Total
At 1 January	**143,555**	**1,084,258**	**1,502,231**	**2,730,044**	**130,033**	**1,084,258**	**945,518**	**2,159,809**
Transfer from retained earnings	26,864	-	(26,864)	-	13,522		(13,522)	-
Dividends paid	-	-	-	-	-	-	-	-
Net profit for the year (*)	-	-	640,121	640,121	-	-	581,202	581,202
Actuarial gain/loss on employee benefits	-	-	19,321	19,321	-	-	(10,967)	(10,967)
At 31 December	**170,419**	**1,084,258**	**2,134,809**	**3,389,486**	**143,555**	**1,084,258**	**1,502,231**	**2,730,044**

(*) Net profit for the year regarding the period 31 December 2013 and 31 December 2012 does not include non-controlling interest income.

Legal Reserves

The legal reserves consist of first and second legal reserves, appropriated in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of statutory profits at the rate of 5%, until the total reserve reaches 20% of the entity's share capital. The second legal reserve is appropriated after the first legal reserve and dividends, at the rate of 10% of all cash dividend distributions.

Dividends Paid and Proposed

Final dividends are not accounted for until they are ratified at the Annual General Meeting.

Movements of Unrealized Gains/ Losses on Available-for-Sale Investments, Net of Tax

	31 December 2013	31 December 2012
At 1 January	55,945	(105,281)
Net unrealized gains on AFS	(108,115)	205,086
Realized (gains) / losses on AFS recycled to income statement on disposal	(90,124)	(3,520)
Tax effect of net gains on AFS	39,854	(40,340)
Total	**(102,440)**	**55,945**

Movements of Cash Flow Hedge Fund Accounted Under Equity, Net of Tax

	31 December 2013	31 December 2012
At 1 January	(49,666)	4,505
(Losses) / gains on cash flow hedges	102,314	(67,714)
Tax effect of gains on cash flow hedges	(20,463)	13,543
Total	**32,185**	**(49,666)**

20. EARNINGS PER SHARE

Basic earnings per share (EPS) are calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

In Turkey, companies can increase their share capital by making a pro rata distribution of shares ("Bonus Shares") to existing shareholders without consideration for amounts resolved to be transferred to share capital from profit reserves such as retained earnings and revaluation surplus. For the purpose of the EPS calculation such Bonus Share issues are regarded as stock dividends. Dividend payments, which are immediately reinvested in the shares of the Bank, are regarded similarly. Accordingly the weighted average number of shares used in EPS calculation is derived by giving retroactive effect to the issue of such shares, which are shown in the table below.

	Opening	Cash	Increase Related to Merger	Transfers from Retained Earnings	Transfers From Revaluation Surplus	Reinvestment of Dividend Payments	Total	Closing
Before 1995	-	150	-	3,000	250	-	3,400	3,400
1996	3,400	-	-	-	330	1,270	1,600	5,000
1997	5,000	-	-	1,022	596	4,382	6,000	11,000
1998	11,000	5,512	-	529	682	7,277	14,000	25,000
1999	25,000	-	-	600	2,062	16,338	19,000	44,000
2000	44,000	40,182	-	-	-	26,068	66,250	110,250
2001	110,250	-	-	-	-	-	-	110,250
2002	110,250	-	-	-	-	-	-	110,250
2003	110,250	-	-	5,350	-	-	5,350	115,600
2004	115,600	-	-	-	-	-	-	115,600
2005	115,600	-	-	-	-	-	-	115,600
2006	57,800	18,700	-	-	-	-	18,700	76,500
2007	76,500	210,000	-	216,750	251,750	-	678,500	755,000
2008	755,000	345,000	-	-	-	-	345,000	1,100,000
2009	1,100,000	-	-	-	-	-	-	1,100,000
2010	1,100,000	-	-	-	-	-	-	1,100,000
2011	1,100,000	-	1,050,000	54,390	-	-	1,104,390	2,204,390
2012	2,204,390	-	-	-	-	-	-	2,204,390
2013	2,204,390	-	-	-	-	-	-	2,204,390

The following reflects the income (in full TL) and share data (in thousands) used in the basic earnings per share computations:

	31 December 2013	31 December 2012
Net profit	641,849	582,743
Weighted average number of ordinary shares for basic earnings per share	2,204,390	2,204,390
Net profit attributable to ordinary shareholders for basic earnings per share	0.2912	0.2644
Net profit attributable to ordinary shareholders for diluted earnings per share	0.2912	0.2644

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

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

21. RELATED PARTY DISCLOSURES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions. The Group is controlled by the Çolakoğlu family and BNP Paribas Group each of which directly or indirectly own 50% of the shares of the Bank. For the purpose of these consolidated financial statements, unconsolidated subsidiaries, associates, shareholders, Çolakoğlu Group companies, and BNP Paribas Group entities including Fortis Bank Group are referred to as related parties. Related parties also include individuals that are principal owners, management and members of the Group's Board of Directors and their families.

In the normal course of its business, the Group conducted various business transactions with related parties. These transactions primarily include loans, deposits and borrowing transactions. The significant outstanding balances and transactions with related parties at year-ends and relating expense and income for the years are as follows:

31 December 2013:

Related party (*)	Cash loans	Non-cash loans	Funds borrowed	Deposits taken	Deposits with banks	Derivative financial instruments -Assets	Other liabilities	Derivative financial instruments -Liabilities	Notional amount of derivative transactions	Interest income	Interest expense	Other operating income	Other operating expense
Direct/Indirect shareholders	7,130	10	3,846,609	1,221,029	13,536	77,422	2,152	112,570	11,869,854	2,730	153,827	10,823	16,851
Others	11,504	376,434	-	672,711	40,726	1	239	9	664,232	1,173	24,386	12,070	17,045

31 December 2012:

Related party (*)	Cash loans	Non-cash loans	Funds borrowed	Deposits taken	Deposits with banks	Derivative financial instruments -Assets	Other liabilities	Derivative financial instruments -Liabilities	Notional amount of derivative transactions	Interest income	Interest expense	Other operating income	Other operating expense
Direct/Indirect shareholders	697	4	3,091,034	471,343	2,118	46,624	535	80,014	9,645,058	3,684	52,259	5,304	6,479
Others	42,467	268,355	-	307,130	11,590	18	1	19	3,628	16,163	34,089	974	12,673

(*) "Direct/Indirect shareholders" of the Group corresponds to TEB Holding A.Ş., BNP Yatırımlar Holding A.Ş. and BNP Paribas Fortis Yatırımlar Holding A.Ş.. "Others" corresponds to all other Çolakoğlu Group companies and BNP Paribas Group companies.

No provisions have been recognized in respect of loans given to related parties (31 December 2012: nil).

Compensation of Key Management Personnel of the Group

The executive and non-executive members of Board of Directors and management received remuneration and fees totaling approximately TL 34,710 as of 31 December 2013 (31 December 2012: TL 35,762) comprising mainly of salaries and other short-term benefits.

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

22. SALARIES AND EMPLOYEE BENEFITS

	31 December 2013	31 December 2012
Wages and salaries	611,429	528,285
Cost of defined contribution plan (employers' share of social security premiums)	104,981	81,931
Bonuses	58,102	66,639
Provision for employee termination benefits	21,124	31,105
Other fringe benefits	65,217	68,404
Total	**860,853**	**776,364**

Total Salaries and Employee Benefits include merger and restructuring cost amounting to TL 19,589 as of December 2012 (31 December 2013: nil).

23. OTHER OPERATING EXPENSES

	31 December 2013	31 December 2012
Maintenance and various administrative expenses	275,738	239,838
Rent expenses	161,997	143,115
Communication expenses	67,606	64,318
Advertisement expenses	79,095	67,106
Total	**584,436**	**514,377**

As of 31 December 2012 total Other Operating Expenses include merger and restructuring cost amounting to TL 13,436 (31 December 2013: nil.).

24. NET GAIN/LOSS ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2013	31 December 2012
Remeasurement of foreign currency position	(426,162)	369,392
Derivatives – held for trading fair value	446,946	(402,083)
Derivatives – held for trading- interest	(17,950)	(22,659)
Derivatives – hedging instruments- fair value	82,881	(20,630)
Remeasurement of interest-rate risk hedged portfolios	(12,905)	4,755
Net gain/(loss) on securities held for trading	(45,395)	16,573
Change in fair value of AFS securities hedged by fair value hedge	(3,804)	2,783
Total	**23,611**	**(51,869)**

Gains less losses on trading securities arise primarily from fixed income securities.

25. FEES AND COMMISSIONS INCOME AND EXPENSES

	31 December 2013	31 December 2012
Fees and commissions income		
Banking	931,162	881,610
Fund management	36,315	29,103
Brokerage	37,715	25,115
Insurance	52,091	40,233
Total	**1,057,283**	**976,061**
Fees and commissions expenses		
Banking	346,401	358,654
Other	36,704	29,238
Total	**383,105**	**387,892**

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

26. COMMITMENTS AND CONTINGENCIES

In the normal course of business activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in the financial statements including:

	31 December 2013	31 December 2012
Letters of guarantee issued	7,887,838	6,730,062
Letters of credit	1,688,889	1,532,317
Acceptance credits	271,178	903,219
Other guarantees	1,840,081	1,324,840
Total non-cash loans	**11,687,986**	**10,490,438**
Other commitments	8,003,295	6,981,176
Credit card limit commitments	3,545,841	2,933,697
Total	**23,237,122**	**20,405,311**

The Group has TL 209,378 (31 December 2012: TL 174,050) letters of guarantee obtained from other banks.

Fiduciary Activities

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

Investment fund participation certificates held in custody which belong to the customers and the portfolio are accounted for with their nominal values. As of 31 December 2013 the total nominal value and number of certificates are TL1,726,206 and 172,616,885 thousand (31 December 2012: TL2,673,746 and 267,368,509 thousand) and the total fair value is TL8,212,029 (31 December 2012: TL9,924,214)

The Group also manages forty five investment funds, which were established under the regulations of the Turkish Capital Markets Board. In accordance with the funds' charters, the Group purchases and sells marketable securities on behalf of funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations.

Letters of Guarantee Given to İstanbul Stock Exchange (ISE) and İstanbul Gold Market (IGM)

As of 31 December 2013, in line with the requirements of IGM, letters of guarantee amounting to TL 873 (31 December 2012: TL 731) had been obtained from local banks and were provided to IGM for transactions conducted in that market.

As of 31 December 2013, according to the general requirements of the ISE, letters of guarantee amounting to TL 31,574 (31 December 2012: TL 26,531) had been obtained from various local banks and were provided to ISE for bond and stock market transactions.

Litigation

In the normal course of its operations, the Group can be constantly faced with legal disputes, claims and complaints. The necessary provision, if any, for those cases are provided based on management estimates and professional advice. The Group has provided TL35,796 (31 December 2012: TL 45,612) provision for legal cases.

Other

The branch premises that are leased under operational leases periods vary between 1 and 10 years and lease agreements are cancelable subject to a period of notice which does not exceed 6 months. There are no restrictions placed upon the lessee by entering into these leases.

The inspection of the Competition Board that was conducted to determine whether 12 banks active in Turkey are in agreement and concerted practice in loan and credit card services sector and thus violated Article 4 of the Law on Protection of Competition, no 4054) was completed on March 8 2013. As a result of inspection, it has been agreed by a majority to impose an administrative fine of TL10,669 to the Parent Bank on the condition that the decision can be appealed against before Ankara Administrative Court. The penalty paid as TL8,002 on 22 July 2013 as three fourths of the main penalty as per Article 17 of the Misdemeanors Law, no 5326, was paid on 16th August 2013. The Parent Bank filed the annulment action over the file no.2014/7E Ankara 2nd Administrative Court against the decision about the administrative fines imposed by Competition Board at Ankara Administrative Court on 19 September 2013 and the case has been continuing.

27. FINANCIAL RISK MANAGEMENT

Organization of the Risk Management Function

The Group's activities involve some degree of risk or combination of risks. Therefore, procedures and operations throughout the Group are designed towards contributing to effective addressing of matters reflecting the disciplined and prudent risk management culture of the Group. The Group Risk Management supervises the risk management process of the Group.

The risk management process consists of the stages of defining and measuring the risks; establishing the risk policies and procedures and their implementation; and the analysis, review, reporting, research, recognition and assessment of risks within the framework of the basis set by the Board and the Audit Committee.

The mission of the Group Risk Management is to inform Board of Directors, General Management and the Audit Committee of the status of risks to which the Group is exposed and to ensure together with executive management that risks taken by the Group align with its policies and are compatible with its profitability and credit-rating objectives. It compiles regulatory statements and financial reporting regarding risk management and measurement.

The Board of Directors determines general credit policies, specific policies and power delegations and sets limits related to fundamental risks being carried by the Group. They have the ultimate responsibility of ensuring that senior management establishes and maintains an adequate and effective system of internal control.

The responsibility of the Audit Committee is to coordinate all the risk management activities within the bank and supervise the parties involved in Internal Control. In doing so, the Committee ensures establishment of an efficient and effective risk management.

Credit Risk

The Board of Directors determines general credit policies, specific policies and power delegations and sets limits related to fundamental risks being carried by the Bank and operating companies.

A system of delegated lending limits is established with ultimate authority being vested in the Board through the Credit Committees of the Bank and operating companies. Along with the Credit Committee, Financial Institutions and Country Risk Committee work as a sub-committee on a Group basis.

Credit limits are determined taking into account the borrowers' financial structure, some qualitative criteria and the quality of the guarantees.

The Group uses its own internal rating system, which takes into account various financial and non-financial indicators for the evaluation of Corporate and SME clients.

Counterparty limits are daily monitored on a consolidated basis. In accordance with the Group's credit policy, the ratings of the borrowers, credit limits and collateralization process are collectively considered and credit risks are closely monitored. The credit risks and limits relate to treasury activities, the limits of the correspondent banks that are determined by their ratings and the control of the accepted risk level in relation to equity are monitored on a daily basis.

The credibility of the debtors of the Group is assessed periodically in accordance with the prevailing regulations on lending.

In order to control the concentration risk, sector specific limits are imposed and monitored. The large exposure policies set by the Board determine the maximum exposure to customer groups in an approach which is generally more conservative than the limits set by the regulatory authorities.

The Group Risk Management reports to the Board of Directors and the Audit Committee on a regular basis presenting risk concentrations, specific segments of the portfolio, large exposures, and impairment allowances as well as default and recovery rates.

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

27. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Each operating company is required to implement credit policies, procedures and guidelines in line with the Group standards and is responsible for the quality and performance of its credit portfolio and controlling all credit risks.

After a loan facility is offered, the Credit Monitoring Department monitors the customer's repayment capability and the sufficiency and adequacy of the collateral. In this way, any problematic loan is identified at an early stage.

Both collective and specific provisions are made with methodologies which are compliant with both IFRS standards and BNP Paribas methodologies.

Netting is a technique used by the Group to mitigate counterparty risks mainly on derivative transactions. The transactions concerned are executed according to the terms of bilateral or multilateral master agreements that comply with the general provisions of international master agreements such as International Swaps and Derivatives Association (ISDA).

An industry sector analysis of the Group's financial assets, non-cash loans and commitments are as follows;

	31 December 2013	31 December 2012
Ores & Materials	9,886,092	14,369,112
Private individuals	16,717,811	12,827,200
Government	5,356,688	4,801,543
Banks	9,139,452	7,827,814
Food	5,069,834	4,349,572
Finance	2,582,130	3,146,533
Construction & public works	4,773,364	3,721,163
Wholesaler	3,416,602	2,569,745
Transportation	2,859,394	2,253,979
Chemical	1,573,616	1,415,025
Equipment materials	1,135,256	1,231,010
Automotive	1,238,355	962,361
Technology	980,150	697,067
Energy	654,168	411,280
Healthcare & Pharmacy	40,976	40,340
Property	47,847	19,775
Hotels, Tourism, Leisure	177	1,767
Others	11,954,647	3,767,600
Total	**77,426,559**	**64,412,886**

The table below shows the maximum exposure to credit risk for the components of the financial statements;

Gross maximum exposure	31 December 2013	31 December 2012
Cash and balances with Central Banks (excluding cash on hand)	6,289,139	4,068,951
Loans and receivables due from banks	2,008,553	1,871,772
Other money market placements	245	1,700,525
Financial assets at fair value through profit and loss	1,384,117	639,005
Derivative used for hedging purposes	112,245	16,883
Available -for-sale financial assets	4,408,885	4,308,832
Held-to-maturity investments	292,956	20,416
Loans and receivables and factoring receivables	38,557,552	30,241,274
Remeasurement adjustment on interest-rate risk hedged portfolios	3,404	16,309
Other assets	1,132,341	1,123,608
Total	**54,189,437**	**44,007,575**
Contingent liabilities	11,687,986	10,490,438
Commitments	11,549,136	9,914,873
Total	**23,237,122**	**20,405,311**
Total credit risk exposure	**77,426,559**	**64,412,886**

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

27. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Credit quality per class of financial assets as of 31 December 2013 and 2012 are as follows;

31 December 2013	Neither past due nor impaired	Past due or individually impaired, net	Allowance for collective impairment	Total
Other money market placements	245	-	-	245
Loans and receivables due from banks	2,008,553	-	-	2,008,553
Financial assets designated at fair value through profit or loss	1,384,117	-	-	1,384,117
Derivative financial instruments held for hedging	112,245	-	-	112,245
Loans and receivables	35,931,344	1,815,430	(282,665)	37,464,109
Commercial	23,649,630	998,785	(186,073)	24,462,342
Consumer	9,744,043	628,645	(61,576)	10,311,112
Credit Cards	2,463,627	188,000	(35,016)	2,616,611
Other	74,044	-	-	74,044
Factoring receivables	1,068,856	26,509	(1,922)	1,093,443
Remeasurement adjustment on interest rate risk hedged portfolio	3,404	-	-	3,404
Investment securities	4,659,442	-	-	4,659,442
Available-for-sale (*)	4,366,486	-	-	4,366,486
Held-to-maturity	292,956	-	-	292,956
Total	**45,168,206**	**1,841,939**	**(284,587)**	**46,725,558**

31 December 2012	Neither past due nor impaired	Past due or individually impaired, net	Allowance for collective impairment	Total
Other money market placements	1,700,525	-	-	1,700,525
Loans and receivables due from banks	1,871,772	-	-	1,871,772
Financial assets designated at fair value through profit or loss	639,005	-	-	639,005
Derivative financial instruments held for hedging	16,883	-	-	16,883
Loans and receivables	28,180,688	1,545,395	(238,415)	29,487,668
Commercial	18,901,079	896,098	(154,948)	19,642,229
Consumer	7,599,960	378,799	(52,800)	7,925,959
Credit Cards	1,591,411	270,498	(30,667)	1,831,242
Other	88,238	-	-	88,238
Factoring receivables	739,881	15,570	(1,845)	753,606
Remeasurement adjustment on interest rate risk hedged portfolio	16,309	-	-	16,309
Investment securities	4,304,645	-	-	4,304,645
Available-for-sale (*)	4,284,229	-	-	4,284,229
Held-to-maturity	20,416	-	-	20,416
Total	**37,469,708**	**1,560,965**	**(240,260)**	**38,790,413**

(*) TL 42,399 (31 December 2012: TL 24,603) equity securities not included.

Carrying amount per class of financial assets whose terms have been renegotiated:

	31 December 2013	31 December 2012
Loans and receivables		
Commercial	609,055	170,772
Consumer	440,937	315,599
Credit Cards	3,642	-
Total	**1,053,634**	**486,371**

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

27. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Credit Rating System

The credit risk is assessed through the internal rating system of the Group, by classifying loans from highest grade to lowest grade according to the probability of default. As of 31 December 2013, consumer loans and business loans are excluded from the internal rating system of the Bank and those loans are 39.31% of total loan portfolio. The risks that are subject to rating models can be allocated as follows:

Category	Description of Category	Share in the Total %
1st Category	The borrower has a very strong financial structure	36.51
2nd Category	The borrower has a good financial structure	26.18
3rd Category	The borrower has an intermediate level of financial structure	31.95
4th Category	The financial structure of the borrower has to be closely monitored in the medium run	5.36
	Total	**100.00**

Liquidity Risk

Liquidity risk is the risk that an entity will be unable to meet its net funding requirements when due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to become unavailable. Liquidity risk occurs when there is insufficient amount of cash inflow to fulfill the cash outflow completely on time.

The Group’s policy is to establish a strong liquidity profile of assets that provides comfort in meeting all kinds of liabilities and commitments so that cash flows are appropriately balanced and all funding obligations are met when due.

The management of liquidity and funding is primarily carried out by the operating companies in accordance with the Group liquidity standards and the limits set by the relevant Board of Directors. It is the general policy of the Group that each operating entity should be self-sufficient with regard to funding requirements for its own operations.

The Group’s liquidity management process includes projections of cash flows, monitoring balance sheet ratios against internal and regulatory requirements, maintaining diverse range of funding sources, managing the concentration risk, managing maturity mismatches and maintaining contingency plans with regard to liquidity and funding.

Asset and Liability Management Committee (ALCO) defines ALM policies and monitor the results weekly. Asset Liability Management and Treasury (ALM/T) Group has the responsibility for managing funding on money markets and financial markets from short to medium and long term financing and also provides funds to core business lines at TEB and Economy Bank and to reinvest surplus cash. While conducting asset and liability management, the Group aims to generate a positive margin between the financing cost and product income and an optimum maturity risk.

The main source of funding to cover the liquidity requirements is customer deposits and in addition to this source, issuing bonds, borrowings from several credit institutions and banks and professional markets utilizing a range of products, maturities, currencies and counterparties to avoid undue reliance on any particular funding source. Generally the Group does not prefer the liquidity generated from interbank money markets to become the main form of funding and accordingly the Group is generally a net lender in interbank money markets.

The Group Risk Management monitors compliance with policies, limits and indicators in relation to liquidity.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. The most important among these is to maintain limits on the ratio of the Bank’s net liquid assets to customer liabilities, set to reflect market conditions. The ratio realized during the year was as follows:

	31 December 2013 %	31 December 2012 %
Average during the year	23	23
Highest	32	30
Lowest	18	17

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

27. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

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

	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Unallocated	Total
As at 31 December 2013						
Assets:						
Cash and balances with central banks	6,982,809	-	-	-	-	6,982,809
Loans and receivables due from banks	1,063,682	229,704	456,549	137,224	121,394	2,008,553
Other money market placements	245					245
Financial assets at fair value through profit and loss	172,491	173,569	789,415	248,642	-	1,384,117
Derivatives used for hedging purposes	-	42,898	21,653	47,694	-	112,245
Available-for-sale financial assets	12,624	582,677	972,061	2,820,508	21,015	4,408,885
Loans and receivables	11,461,886	1,490,583	6,519,688	17,741,315	250,637	37,464,109
Remeasurement adjustment on interest rate risk hedged portfolios	-	-	-	3,404	-	3,404
Held-to-maturity investments	-	-	-	292,956	-	292,956
Factoring receivables	643,004	336,654	107,479	-	6,306	1,093,443
Premises and equipment	-	-	-	-	332,957	332,957
Intangible assets	-	-	-	-	55,700	55,700
Goodwill	-	-	-	-	420,645	420,645
Deferred tax asset	-	-	-	-	116,617	116,617
Other assets	4,998	225	221	161	1,126,736	1,132,341
Total assets	**20,341,739**	**2,856,310**	**8,867,066**	**21,291,904**	**2,452,007**	**55,809,026**
Liabilities:						
Deposits from other banks	1,598,912	28,478	8,182	-	-	1,635,572
Customers' deposits	25,790,180	7,367,861	592,996	146,537	-	33,897,574
Other money market deposits	1,062,443	-	-	-	-	1,062,443
Factoring payables	8,012	-	-	-	-	8,012
Financial liabilities at fair value through profit and loss	97,965	124,260	209,295	51,311	-	482,831
Derivatives used for hedging purposes	-	11,238	25,850	32,350	-	69,438
Bonds issued	-	278,005	432,271	-	-	710,276
Funds borrowed	1,602,693	1,810,130	4,214,255	2,154,019	-	9,781,097
Other liabilities	1,021,854	21	4,981	6	1,098,679	2,125,541
Provisions	-	-	294	-	196,900	197,194
Income taxes payable	-	1,483	13,685	-	-	15,168
Total liabilities	**31,182,059**	**9,621,476**	**5,501,809**	**2,384,223**	**1,295,579**	**49,985,146**
Net liquidity gap	**(10,840,320)**	**(6,765,166)**	**3,365,257**	**18,907,681**	**1,156,428**	**5,823,880**
As at 31 December 2012						
Total assets	18,580,028	1,932,709	7,300,299	15,464,270	2,270,108	45,547,414
Total liabilities	23,854,073	10,603,070	3,790,301	1,913,544	204,911	40,365,899
Net liquidity gap	**(5,274,045)**	**(8,670,361)**	**3,509,998**	**13,550,726**	**2,065,197**	**5,181,515**

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

27. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

Analysis of financial liabilities by remaining contractual maturities;

	Demand	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Adjustments	Total
As of 31 December 2013								
Customers' deposits	5,937,860	19,882,934	7,469,878	604,875	156,448	-	(154,421)	33,897,574
Deposits from other banks	107,038	1,492,314	28,556	8,591	-	-	(927)	1,635,572
Funds borrowed	-	1,605,691	1,823,724	4,322,872	906,174	1,915,467	(792,831)	9,781,097
Other money market deposits	-	1,062,666	-	-	-	-	(223)	1,062,443
Total	**6,044,898**	**24,043,605**	**9,322,158**	**4,936,338**	**1,062,622**	**1,915,467**	**(948,402)**	**46,376,686**
As of 31 December 2012								
Customers' deposits	4,622,556	14,790,598	8,148,705	1,492,474	165,314	14	(191,513)	29,028,148
Deposits from other banks	193,156	669,073	27,767	7,296	36,028	-	(1,534)	931,786
Funds borrowed	-	602,227	915,085	4,016,500	954,822	1,210,239	(629,576)	7,069,297
Other money market deposits	-	40,916	-	-	-	-	-	40,916
Total	**4,815,712**	**16,102,814**	**9,091,557**	**5,516,270**	**1,156,164**	**1,210,253**	**(822,623)**	**37,070,147**

Analysis of contractual expiry by maturity of the Group's some class of derivative financial instruments;

	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
As of 31 December 2013						
Hedging Portfolio						
Fair value hedge	-	497,383	7,718	124,002	-	629,103
Cash flow hedge	16,296	3,458	131,843	102,146	630	254,373
Trading Portfolio						
Forward contracts	1,706,709	943,466	1,412,272	371,446	-	4,433,893
Currency swaps	3,311,054	3,332,033	2,732,970	1,016,684	-	10,392,741
Interest rate swaps	14,002	16,075	42,538	38,654	3,100	114,369
Foreign currency futures-sell	-	-	-	-	-	-
Foreign currency options-sell	2,416,106	2,995,020	4,581,282	11,501	-	10,003,909
Total	**7,464,167**	**7,787,435**	**8,908,623**	**1,664,433**	**3,730**	**25,828,388**
As of 31 December 2012						
Hedging Portfolio						
Fair value hedge	1,804	13,835	30,126	1,486,575	-	1,532,340
Cash flow hedge	18,992	21,014	98,328	158,780	2,228	299,342
Trading Portfolio						
Forward contracts	1,011,976	1,007,121	1,071,242	56,403	-	3,146,742
Currency swaps	2,140,278	1,194,078	2,617,801	220,795	-	6,172,952
Interest rate swaps	5,790	1,031	6,260	22,170	692	35,943
Foreign currency futures-sell	-	-	-	-	-	-
Foreign currency options-sell	2,389,585	3,064,581	2,985,520	942	-	8,440,628
Total	**5,568,425**	**5,301,660**	**6,809,277**	**1,945,665**	**2,920**	**19,627,947**

Market Risk

Market risks arise from changes in interest rates, foreign exchange rates and prices of equities, all of which are exposed to general and specific market movements. The objective of the Group's market risk management is to manage and control market risk exposures in order to optimize return on risk while maintaining the conservative risk profile of the Group.

All trading positions are marked to market on a daily basis in compliance with regulatory requirements determined by Banking Regulation and Supervision Agency (BRSA), Capital Markets Board and other authorities. Only securities held to maturity are valued at amortized cost using internal rate of return.

The Board of Directors evaluates the probable risks and accordingly determines limits. Those limits are revised periodically in line with the strategies of the Group. The Board of Directors ensures that the Group Risk Management has taken necessary precautions to identify, evaluate, control and manage risks faced.

The Group Risk Management calculates and follows the several market risk limits set by the Board of Directors. Some of those are VaR, PV01, Interest Rate Delta and Vega limits. Finally, nominal stop loss and position limits for each product have been set.

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

27. FINANCIAL RISK MANAGEMENT (continued)

Currency Risk

The Group evaluates the exposure for the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign currency risk indicates the possibilities of the potential losses that the Group is subject to due to the exchange rate fluctuations in the market.

The Board of Directors sets limits for the positions, which are followed up on a daily basis. Additionally, any possible changes in positions are closely monitored.

Generally, Group companies are not allowed to take foreign exchange risks except for the trading positions of the banks. As a result of the Group's risk management strategies, foreign currency mismatches of assets and liabilities beyond limits are economically hedged against exchange rate risk by using derivative instruments.

The concentrations of assets, liabilities and off balance sheet items in various currencies are:

	Turkish Lira	Euro	US Dollars	Other	Total
As at 31 December 2013					
Assets:					
Cash and balances with central banks	699,501	2,858,845	2,442,645	981,818	6,982,809
Loans and receivables due from banks	750,662	461,483	725,432	70,976	2,008,553
Other money market placements	245	-	-	-	245
Financial assets at fair value through profit and loss	1,331,591	29,053	23,054	419	1,384,117
Derivatives used for hedging purposes	112,182	-	63	-	112,245
Available-for-sale financial assets	4,267,827	92,866	42,043	6,149	4,408,885
Loans and receivables	27,718,021	3,569,833	5,332,680	843,575	37,464,109
Remeasurement adjustment on interest rate risk hedged portfolios	3,404	-	-	-	3,404
Held-to-maturity investments	292,956	-	-	-	292,956
Factoring receivables	618,879	264,547	195,129	14,888	1,093,443
Premises and equipment	323,348	9,609	-	-	332,957
Intangible assets	54,368	1,332	-	-	55,700
Goodwill	420,645	-	-	-	420,645
Deferred tax asset	114,397	2,220	-	-	116,617
Other assets	958,720	161,356	9,097	3,168	1,132,341
Total assets	**37,666,746**	**7,451,144**	**8,770,143**	**1,920,993**	**55,809,026**
Liabilities:					
Deposits from other banks	1,341,599	61,508	141,287	91,178	1,635,572
Customers' deposits	22,677,347	3,972,878	6,200,150	1,047,199	33,897,574
Other money market deposits	1,062,443	-	-	-	1,062,443
Financial liabilities at fair value through profit and loss	2,011	4,841	820	340	8,012
Derivatives used for hedging purposes	477,703	1,766	3,016	346	482,831
Factoring payables	69,438	-	-	-	69,438
Marketable securities issued	710,276	-	-	-	710,276
Funds borrowed	1,078,390	5,310,518	2,536,504	855,685	9,781,097
Other liabilities	1,974,903	34,705	115,109	824	2,125,541
Provisions	196,453	293	438	10	197,194
Income taxes payable	15,168	-	-	-	15,168
Total liabilities	**29,605,731**	**9,386,509**	**8,997,324**	**1,995,582**	**49,985,146**
Net balance sheet position	**8,061,015**	**(1,935,365)**	**(227,181)**	**(74,589)**	**5,823,880**
Off-balance sheet position					
Net notional amount of derivatives	(2,384,092)	2,002,953	596,422	110,776	326,059
Non-cash loans	4,752,585	3,090,581	3,703,730	149,050	11,695,946
Net position	**5,676,923**	**67,588**	**369,241**	**36,187**	**6,149,939**
At 31 December 2012					
Total assets	32,312,913	5,358,364	6,193,335	1,682,802	45,547,414
Total liabilities	25,060,478	6,890,081	6,813,396	1,601,944	40,365,899
Net balance sheet position	**7,252,435**	**(1,531,717)**	**(620,061)**	**80,858**	**5,181,515**
Off-balance sheet position					
Net notional amount of derivatives	(2,755,617)	1,928,082	782,648	(63,122)	(108,009)
Non-cash loans	4,032,796	3,018,025	3,275,566	164,051	10,490,438
Net position	**4,496,818**	**396,365**	**162,587**	**17,736**	**5,073,506**

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

27. FINANCIAL RISK MANAGEMENT (continued)

Currency Risk (continued)

Foreign currency sensitivity

The Group is mainly exposed to EUR and USD currencies.

The following table indicates in detail the Group's sensitivity to a 10% increase and decrease in the TL against USD and EUR 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates.

	Change in currency rate in %	**Increase /(Decrease) Effect on profit or loss**		**Increase /(Decrease) Effect on equity excluding PL**	
		31 December 2013	31 December 2012	31 December 2013	31 December 2012
USD	10 increase	13,286	15,858	60	401
USD	10 decrease	(13,286)	(15,858)	(60)	(401)
EUR	10 increase	82,628	39,541	127	95
EUR	10 decrease	(82,628)	(39,541)	(127)	(95)

The Group's sensitivity to foreign currency rates has not changed significantly during the current period. The positions taken in line with market expectations can increase the foreign currency sensitivity from period to period.

Cash Flow and Fair Value Interest Rate Risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of a change in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of a change in market interest rates. The Group evaluates the exposure for the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flows. Interest rate risk shows the probability of loss related to the changes in interest rates depending on the position.

Each operating entity is responsible for monitoring and controlling the interest rate risk in line with the Group interest rate risk standards and the limits set by the relevant Board of Directors. The ALCO is responsible of managing interest rate risk at the Bank.

The first principle of the Group regarding interest rate risk is to protect itself from interest rate volatility. All types of sensitivity analysis are calculated by the Group Risk Management and reported to the Board of Directors, ALCO and the Audit Committee.

Maturities of outstanding assets are based on the contractual characteristics of the transactions.

i) The Bank only economic value differences resulted from interest rate instabilities calculated according to "Regulation on measurement and evaluation of interest rate risk resulted from the banking accounts as per standard shock method"

Type of Currency	**Shock Applied (+/- x basis point)**	**Gains/ (Losses)**	**Gains/Equity–(Losses)/Equity**
TRY	(400)	864,647	12.60%
TRY	500	(930,990)	(13.57)%
EURO	(200)	19,774	0.29%
EURO	200	(16,890)	(0.25)%
USD	(200)	65,434	0.95%
USD	200	(58,972)	(0.86)%
Total (of negative shocks)	**(800)**	**949,855**	**13.84%**
Total (of positive shocks)	**900**	**(1,006,852)**	**(14.68)%**

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

27. FINANCIAL RISK MANAGEMENT (continued)

Cash Flow and Fair Value Interest Rate Risk (continued)

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

	Up to 1 month	1 to 3 months	3 months to 1 year	Over 1 year	Non-interest bearing	Total
As at 31 December 2013						
Assets :						
Cash and balances with central banks	596,052	-	-	-	6,386,757	6,982,809
Loans and receivables due from banks	1,123,057	286,182	380,469	95,946	122,899	2,008,553
Other money market placements	245	-	-	-	-	245
Financial assets at fair value through profit and loss	15,286	81,605	535,463	77,116	674,647	1,384,117
Derivatives used for hedging purposes	-	1,948	21,653	32,712	55,932	112,245
Available-for-sale financial assets	501,840	1,088,923	1,089,614	1,707,493	21,015	4,408,885
Loans and receivables	11,548,023	1,990,353	6,589,922	17,085,174	250,637	37,464,109
Remeasurement adjustment on interest rate risk hedged portfolios	-	-	-	3,404	-	3,404
Held-to-maturity investments	-	-	-	292,956	-	292,956
Factoring receivables	643,004	336,654	107,479	-	6,306	1,093,443
Premises and equipment	-	-	-	-	332,957	332,957
Intangible assets	-	-	-	-	55,700	55,700
Goodwill	-	-	-	-	420,645	420,645
Deferred tax asset	562	-	-	-	116,055	116,617
Other assets	833	-	-	-	1,131,508	1,132,341
Total Assets	**14,428,902**	**3,785,665**	**8,724,600**	**19,294,801**	**9,575,058**	**55,809,026**
Liabilities:						
Deposits from other banks	1,491,958	28,478	8,182	-	106,954	1,635,572
Customers' deposits	20,486,895	7,390,861	569,996	146,537	5,303,285	33,897,574
Other money market deposits	1,062,443	-	-	-	-	1,062,443
Financial liabilities at fair value through profit and loss	-	-	-	-	8,012	8,012
Derivatives used for hedging purposes	17,541	6,202	16,067	13,130	429,891	482,831
Factoring payables	-	11,237	25,850	32,351	-	69,438
Marketable securities issued	-	278,005	432,271	-	-	710,276
Funds borrowed	2,043,919	3,376,333	4,078,893	281,952	-	9,781,097
Other liabilities	-	-	-	-	2,125,541	2,125,541
Provisions	-	-	-	-	197,194	197,194
Income taxes payable	-	-	-	-	15,168	15,168
Total liabilities	**25,102,756**	**11,091,116**	**5,131,259**	**473,970**	**8,186,045**	**49,985,146**
Balance sheet interest sensitivity gap	**(10,673,854)**	**(7,305,451)**	**3,593,341**	**18,820,831**	**1,389,013**	**5,823,880**
As at 31 December 2012						
Total assets	14,535,589	2,920,068	7,412,685	13,701,545	6,977,527	45,547,414
Total liabilities	17,524,570	11,729,384	3,093,507	1,098,033	6,920,405	40,365,899
Net interest sensitivity gap	**(2,988,981)**	**(8,809,316)**	**4,319,178**	**12,603,512**	**57,122**	**5,181,515**

Capital Adequacy

The method used in calculating the consolidated capital adequacy standard ratio is in accordance with the BRSA regulations which are based on Basel II rules. With the regulations published in the Official Gazette dated 28 June 2012, BRSA has introduced a Basel II based method for the banking system. The Group's consolidated capital adequacy ratio is calculated as 13.99% (31 December 2012: 14.84%) in accordance with the related Communiqué as of 31 December 2013.

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

27. FINANCIAL RISK MANAGEMENT (continued)

Operational Risk

Operational risk is defined as the risk of direct or indirect losses resulting from inadequate and/or failed internal process and systems, arising from negligence or fraud of the staff members or stemming from external events.

Operational risk, which is inherent in all business activities, is associated with human error, system failure and inadequate controls and procedures. Operational risk includes errors and omissions in business activities, internal and external fraud and natural disasters.

The Group's first objective is to achieve all qualitative standards of Basel Committee, by implying policy and procedures, ensuring the strict observance of internal code of conduct and also developing strong internal control culture.

Compliance with legal rules, information security, fraud prevention, contingency planning, business continuity and disaster recovery, and also incident management are the main subjects of the operational risk mitigation controls.

The Compliance Function in Group Companies

The definition of compliance is adherence to statutory and regulatory provisions, professional and ethical standards, guidelines issued by the Board of Directors and Audit Committee and internal rules and procedures.

The Compliance Function is responsible for the coordination of permanent control among the Group in respect of the risk of non-compliance and operational risk. It shares this responsibility with other Functions like Risk Management, Legal, Operations, and Finance for their areas of competence. Its missions and responsibilities and delegations of powers it grants are specified in a responsibilities charter.

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Values

Set out below is a comparison by category of carrying amounts and fair values of the Group's major financial instruments that are carried in the financial statements at other than fair values.

	Carrying amount		Fair value	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Financial assets				
Loans and receivables due from banks	2,008,553	1,874,745	2,008,553	1,874,745
Other money market placements	245	1,700,525	245	1,700,525
Loans and receivables	37,464,109	29,487,668	37,733,561	29,667,451
Investment securities held-to-maturity	292,956	20,416	288,676	20,528
Factoring receivables	1,093,443	753,606	1,093,443	753,606
Financial liabilities				
Deposits from other banks and funds borrowed	11,416,669	8,001,083	11,417,154	8,001,477
Customers' deposits	33,897,574	29,028,148	33,898,640	29,036,040
Other money market deposits	1,062,443	40,916	1,062,443	40,916

Loans and Receivables

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

Investment Securities Held-to-Maturity

Fair value for investments held-to-maturity is based on market prices or broker/dealer price quotations. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

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

28. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair Values (continued)

Deposits and Borrowings

The estimated fair value of deposits from other banks and customer deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest bearing deposits and funds borrowed without quoted market price is based on discounted cash flows using interest rates for new deposits and debts with similar remaining maturity.

Fair values of remaining financial assets and liabilities carried at amortized cost, including balances with Central banks, loans and receivables due from banks, other money market placements, factoring receivables and payables are considered to approximate their respective carrying values due to their short-term nature.

Fair Value of Financial Instruments

The fair values of financial assets and financial liabilities are determined as follows:

- Level 1: the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- Level 2: the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and
- Level 3: the fair value of the financial assets and financial liabilities where there is no observable market data. The fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, estimate is made based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

31 December 2013	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit and loss	654,847	729,270	-	1,384,117
Debt instruments	654,847	-	-	654,847
Derivatives held-for-trading	-	729,270	-	729,270
Derivatives used for hedging purposes	-	112,245	-	112,245
Available-for-sale financial assets	4,381,464	16,852	-	4,398,316
Debt instruments	4,358,860	7,626	-	4,366,486
Available-for-sale equity securities (*)	22,604	9,226	-	31,830
Remeasurement adjustment on interest rate risk hedged portfolios	-	3,404	-	3,404
Total	**5,036,311**	**861,771**	**-**	**5,898,082**
Financial liabilities at fair value through profit and loss				
Derivatives held-for-trading	-	482,831	-	482,831
Derivatives used for hedging purposes	-	69,438	-	69,438
Total	**-**	**552,269**	**-**	**552,269**

31 December 2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit and loss	472,295	166,710	-	639,005
Debt instruments	472,295	-	-	472,295
Derivatives held-for-trading	-	166,710	-	166,710
Derivatives used for hedging purposes	-	16,883	-	16,883
Available-for-sale financial assets	4,286,049	14,099	-	4,300,148
Debt instruments	4,279,355	4,874	-	4,284,229
Available-for-sale equity securities (*)	6,694	9,225	-	15,919
Remeasurement adjustment on interest rate risk hedged portfolios	-	16,309	-	16,309
Total	**4,758,344**	**214,001**	**-**	**4,972,345**
Financial liabilities at fair value through profit and loss	-	234,815	-	234,815
Derivatives held-for-trading	-	168,507	-	168,507
Derivatives used for hedging purposes	-	234,815	-	234,815
Total	**-**	**403,322**	**-**	**403,322**

(*) TL 10,569 (31 December 2012: TL 8,684) carried at cost is not included in the table.

There is no transition between Level 1 and Level 2 in the current year.

29. SUBSEQUENT EVENTS

(i) The Bank's Ordinary General Assembly meeting will be held on 25 March 2014.

(ii) It has been resolved that whole balance of the profit in the amount of 508,294 TL shall be transferred to the extraordinary reserves after setting aside general legal reserve of 26,752 TL, the profit distributed to the holders of the founder jouissance certificates in accordance with Article 348 of the Turkish Commercial Code numbered 6102 amounting to 0.43 TL (full TL) and the general legal reserve in the amount of 0.05 TL (full TL) from the total profit in the amount of 535,046 TL of the Bank's 2013 Financial Statements; and profit distribution to the holders of the jouissance certificates shall be determined as 3 April 2014 and such matters shall be presented to shareholders for approval at the Ordinary General Assembly to be held in 25 March 2014.