Tekstil Bankası Anonim Şirketi
and Its Subsidiary

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

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik
Anonim Şirketi
1 March 2013

This report contains 1 page of independent auditors' report and 58 pages of consolidated financial statements together with their explanatory notes.

Tekstil Bankası Anonim Şirketi and Its Subsidiary

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Tekstil Bankası Anonim Şirketi:

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Tekstil Bankası Anonim Şirketi and its subsidiary ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

KPMG Akis Bağımsız Denetim ve SMMM A.Ş.

1 March 2013
Istanbul, Turkey

Tekstil Bankası Anonim Şirketi and Its Subsidiary

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2012
(Currency – In thousands of Turkish Lira (TL))

	Notes	2012	2011
ASSETS			
Cash and balances with the Central Bank	6	273,181	205,284
Deposits with other banks and financial institutions	6	117,536	107,542
Money market receivables	6	3,000	-
Reserve deposits at the Central Bank	7	89,653	98,457
Trading securities	8	2,045	1,413
Derivative financial instruments	19	3,775	24,421
Loans and advances to customers	10	2,647,376	2,490,284
Investment securities - available-for-sale	9	329,402	350,218
Assets held for sale	11	12,156	13,811
Property and equipment	12	94,216	80,013
Intangible assets	13	1,625	1,532
Deferred tax assets	18	6,217	8,756
Other assets	14	86,873	105,227
Total assets		**3,667,055**	**3,486,958**
LIABILITIES			
Deposits from banks	15	53,569	172
Deposits from customers	15	2,656,509	2,456,383
Other money market deposits	15	11,156	126,255
Derivative financial instruments	19	2,489	27,113
Funds borrowed	16	249,101	241,739
Income tax payable	18	3,319	4,326
Provisions	17	15,441	11,663
Other liabilities	17	93,374	97,479
Total liabilities		**3,084,958**	**2,965,130**
EQUITY			
Equity attributable to equity holders of the parent			
Share capital issued	20	420,000	420,000
Adjustment to share capital		4,108	4,108
Share capital premium		184	184
Fair value reserves		17,057	581
Revaluation surplus on buildings		33,416	18,839
Legal reserves and retained earnings	21	107,332	78,116
Total equity		**582,097**	**521,828**
Total liabilities and equity		**3,667,055**	**3,486,958**

The accompanying policies and explanatory notes on pages 7 to 58 form an integral part of these consolidated financial statements.

Tekstil Bankası Anonim Şirketi and Its Subsidiary

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2012
(Currency – In thousands of Turkish Lira (TL))

	Notes	2012	2011
Interest income			
Interest on loans and advances		301,801	228,237
Interest on securities		36,836	27,802
Interest on deposits with other banks and financial institutions		1,294	1,485
Interest on other money market placements		255	8
Other interest income		589	311
Total interest income		**340,775**	**257,843**
Interest expense			
Interest on deposits		(168,096)	(134,442)
Interest on funds borrowed		(9,588)	(6,787)
Interest on other money market deposits		(10,459)	(9,439)
Other interest expense		(53)	(109)
Total interest expense		**(188,196)**	**(150,777)**
Net interest income		**152,579**	**107,066**
Net impairment of loans and advances	10	(30,624)	(14,384)
Net interest income after provision for impairment of loans and advances		**121,955**	**92,682**
Foreign exchange gain/(loss), net	25	(10,778)	4,612
Net interest income after foreign exchange gain and provision for impairment of loans and advances		**111,177**	**97,294**
Other operating income			
Fee and commission income	26	11,027	10,852
Income from banking services	27	13,509	15,151
Net trading income	9,28	11,983	10,683
Other income	29	5,780	5,616
		42,299	42,302
Other operating expenses			
Fee and commission expense	26	(4,387)	(4,373)
Salaries and employee benefits	30	(72,189)	(64,424)
Depreciation and amortization	11,12,13	(3,482)	(3,964)
Taxes other than on income		(4,996)	(5,614)
General and administrative expenses	31	(26,916)	(23,734)
Other expenses	32	(5,254)	(9,081)
		(117,224)	(111,190)
Profit from operating activities before income tax		**36,252**	**28,406**
Income tax – current	18	(5,094)	(9,366)
Income tax – deferred	18	(1,942)	4,861
Profit for the year		**29,216**	**23,901**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2012
(Currency – In thousands of Turkish Lira (TL))

	Notes	2012	2011
Attributable to:			
Equity holders of the Bank		29,216	23,901
Non-controlling interest		-	-
Profit for the year		**29,216**	**23,901**
Earnings per share (Kurus)	23	**0.70**	**0.57**
Other comprehensive income, net of income tax			
Foreign exchange differences on translation of foreign operations		-	2,287
Fair value reserves (available-for-sale financial assets)			
Net change in fair value		16,617	(6,831)
Net amount transferred to profit or loss		(141)	(808)
Revaluation surplus on buildings, net		14,577	4,259
Other comprehensive income for the year, net of income tax		**31,053**	**(1,093)**
Total comprehensive income for the year		**60,269**	**22,808**
Attributable to:			
Equity holders of the Bank		**60,269**	**22,808**
Non-controlling interest		**-**	**-**

The accompanying policies and explanatory notes on pages 7 to 58 form an integral part of these consolidated financial statements.

Tekstil Bankası Anonim Şirketi and Its Subsidiary

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2012
(Currency – In thousands of Turkish Lira (TL))

		Attributable to equity holders of the parent								Non-controlling Interest	Total Equity
	Notes	Share capital	Adjustment to share capital	Share capital premium	Fair value reserves	Translation reserve	Revaluation surplus on buildings	Legal reserves and retained earnings	Total		
At 1 January 2011		420,000	4,108	184	8,220	(2,287)	14,580	54,215	499,020	-	499,020
Comprehensive income for the year											
Profit for the year		-	-	-	-	-	-	23,901	23,901	-	23,901
Other comprehensive income											
Net change in available-for-sale investments		-	-	-	(7,639)	-	-	-	(7,639)	-	(7,639)
Currency translation difference		-	-	-	-	2,287	-	-	2,287	-	2,287
Revaluation surplus on buildings	12	-	-	-	-	-	4,259	-	4,259	-	4,259
Total comprehensive income for the year		-	-	-	(7,639)	2,287	4,259	23,901	22,808	-	22,808
At 31 December 2011 / 1 January 2012		**420,000**	**4,108**	**184**	**581**	**-**	**18,839**	**78,116**	**521,828**	**-**	**521,828**
Comprehensive income for the year											
Profit for the year		-	-	-	-	-	-	29,216	29,216	-	29,216
Other comprehensive income											
Net change in available-for-sale investments		-	-	-	16,476	-	-	-	16,476	-	16,476
Revaluation surplus on buildings	12	-	-	-	-	-	14,577	-	14,577	-	14,577
Total comprehensive income for the year		-	-	-	16,476	-	14,577	29,216	60,269	-	60,269
At 31 December 2012		**420,000**	**4,108**	**184**	**17,057**	**-**	**33,416**	**107,332**	**582,097**	**-**	**582,097**

The accompanying policies and explanatory notes on pages 7 to 58 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2012
(Currency – In thousands of Turkish Lira (TL))

	Notes	2012	2011
Cash flows from operating activities			
Interest received		329,872	234,817
Interest paid		(196,725)	(137,761)
Fees and commissions received		11,136	11,001
Income from banking services		15,668	16,041
Trading income		11,564	10,683
Fees and commissions paid		(4,387)	(4,373)
Cash payments related to employee benefits and similar items		(69,743)	(63,653)
Net cash paid for other operating activities		(47,213)	(33,896)
Income taxes paid		(10,396)	(6,022)
Cash flows from operating activities before changes in operating assets and liabilities		**39,776**	**26,837**
Changes in operating assets and liabilities			
Trading securities		(307)	(1,461)
Reserve deposits at Central Bank		8,804	(42,207)
Loans and advances		(187,283)	(641,765)
Other assets		18,348	(79,022)
Deposits from banks		53,345	(7,882)
Deposits from customers		207,390	671,840
Other money market deposits		(115,017)	(16,966)
Other liabilities		(6,751)	45,766
Net cash (used in) by operating activities		**(21,471)**	**(71,697)**
Cash flows from investing activities			
Purchases of available for sale securities		(210,875)	(215,260)
Proceeds from sale and redemption of available for sale securities		260,026	192,184
Proceeds from sale of assets held for sale		7,216	8,255
Purchases of property and equipment	12	(2,543)	(2,061)
Proceeds from the sale of property and equipment		1,156	128
Purchase of intangible assets	13	(360)	(180)
Net cash provided by / (used in) investing activities		**54,620**	**(16,934)**
Cash flows from financing activities			
Proceeds from funds borrowed		448,609	285,660
Repayments of funds borrowed		(440,011)	(114,358)
Net cash provided by financing activities		**8,598**	**171,302**
Effect of exchange rates on cash and cash equivalents		(623)	8,478
Net increase in cash and cash equivalents		80,900	117,986
Cash and cash equivalents at the beginning of year		312,803	194,817
Cash and cash equivalents at the end of year	6	**393,703**	**312,803**

The accompanying policies and explanatory notes on pages 7 to 58 form an integral part of these consolidated financial statements.

Index for notes to the consolidated financial statements

(Currency – In thousands of Turkish Lira (TL))

1. CORPORATE INFORMATION

General

Tekstil Bankası Anonim Şirketi (a Turkish joint stock company – "Tekstilbank" or "the Bank") was incorporated on 29 April 1986 under the Turkish Banking and Commercial Codes and registered in Istanbul. Certain ordinary shares of the Bank, representing 24.50% of the total, are listed on the Istanbul Stock Exchange since May 1990.

The registered office address of the Bank is located at Maslak Mahallesi Büyükdere Caddesi, No. 247, Şişli 34398 Istanbul/Turkey.

The parent and the ultimate parent of the Bank is GSD Holding A.Ş.

Nature of Activities of the Bank / Group

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

The operations of the Group consist of corporate, commercial and retail banking services, international transactions and securities trading in capital markets, which are conducted mainly with local customers.

The information related to the subsidiary included in consolidation and effective shareholding percentages of the Group at 31 December 2012 is as follows:

	Place of Incorporation	Principal Activities	Effective Shareholding	And Voting Rights (%)
Tekstil Yatırım Menkul Değerler A.Ş. ("Tekstil Yatırım")	Istanbul/Turkey	Brokerage	99.92	99.92

As at 31 December 2012, the Bank has 44 branches located close to industrial zones of Turkey (2011 – 44 branches).

As at 31 December 2012 and 2011, the number of employees is:

	2012	**2011**
The Bank	841	880
Subsidiary	49	51
Total	**890**	**931**

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Statement of Compliance

The Bank and its subsidiary maintain their books of account and prepare their statutory financial statements in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law, accounting standards promulgated by the Turkish Capital Market Board, Turkish Commercial Code and Tax Legislation.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). They have been prepared from statutory financial statements of the Bank and its subsidiary in Turkish Lira ("TL") with adjustments and certain reclassifications for the purpose of fair presentation in accordance with IFRS.

The statutory financial statements were authorised for issue by the Board of Directors on 1 March 2013.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position which are measured at fair value:

- derivative financial instruments
- financial instruments at fair value through profit or loss
- available-for-sale financial instruments
- buildings recorded under property and equipment

2.3 Functional and Presentation Currency

Functional and Presentation Currency of the Bank and Its Subsidiary:

The Bank's and Tekstil Yatırım's functional and presentation currency is TL and consolidated financial statements including comparative figures for the prior periods are presented in thousands of TL. Turkish Kurus (Kr), which is used in presentation of earnings per share, equals 0.01 Turkish Lira.

2.4 Use of Judgments and Estimates

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and judgments are periodically evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the financial statements:

(a) Impairment of available-for-sale equity instruments:

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry performance, changes in technology and operational and financing cash flows.

(b) Impairment on property and equipment:

After recognition, the Group assesses the recoverable amount of its property and equipment. At each reporting date, the Group evaluates whether there is any impairment indication on the asset. When an indication of impairment exists, the Group estimates the recoverable values of such assets. Impairment exists if the carrying value of an asset or a cash generating unit is greater than its recoverable amount which is the higher of value in use or fair value less costs to sell. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. The Group provides appraisal reports of property from third party appraisers commissioned by BRSA and Capital Markets Board for determination of fair values of property at the period ends.

Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the date of financial position, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are discussed below:

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates (continued)

(a) Impairment Losses on Loans and Advances:

The Group reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the consolidated statement of comprehensive income, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and individual loans. All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed. Other evidence for impairment may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Impairment and uncollectability are measured and recognized individually for loans and receivables that are individually significant, and on a portfolio basis for a group of similar loans and receivables that are not individually identified as impaired.

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

(b) Fair Values of Derivatives and Other Financial Instruments:

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the Group uses that technique. To the extent practical, models use only observable data; however, areas such as credit risk, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. The fair values of financial instruments are disclosed in Note 5.

(c) Income Taxes:

The Bank and its subsidiary Tekstil Yatırım are subject to income taxes in Turkey. Significant estimates are required in determining the provision for income taxes. Where there are matters the final tax outcome of which is different from the amounts initially recorded, such differences will impact the income tax provisions and deferred tax in the period in which such determination is made.

Management records deferred tax assets to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized. The recoverability of the deferred tax assets is reviewed regularly.

(d) Employee Termination Benefits:

In accordance with existing social legislation, the Group is required to make lump-sum payments to employees upon termination of their employment based on certain conditions. In calculating the related liability to be recorded in the financial statements for these benefits, the Group makes assumptions and estimations relating to the discount rate to be used, turnover of employees, future change in salaries/limits, etc.

(Currency – In thousands of Turkish Lira (TL))

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary, as at 31 December 2012 and 2011.

Subsidiary is the entity over which the Group has power to govern the financial and operating policies so as to benefit from its activities. This control is normally evidenced when the Group owns, either directly or indirectly, more than 50% of the voting rights of a company's share capital. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiary is fully consolidated from the date of acquisition, being 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 subsidiary 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; unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

The equity and net income attributable to non-controlling interests are shown separately in the statement of financial position and statement of comprehensive income, respectively, except where the minority shareholders, who are nominee shareholders, do not exercise their minority rights. The Group has non-controlling interests due its subsidiary Tekstil Yatırım's minor shareholders (0,08% share) whose interests are immaterial to be presented in the consolidated financial statements.

2.6 Foreign Currency Translation

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 date of financial position. All differences are taken to the profit or loss.

Foreign currency translation rates for major currencies used by the Group as at respective year-ends are as follows:

	Euro / TL (full)	US Dollar / TL (full)
31 December 2010	2.0491	1.5460
31 December 2011	2.4592	1.9065
31 December 2012	2.3517	1.7826

2.7 Property and Equipment

Owned Assets

The cost of the property and equipment purchased before 31 December 2005 are restated for the effects of inflation in TL units current at 31 December 2005 pursuant to International Accounting Standards ("IAS") 29. The property and equipment purchased after this date are recorded at their historical costs. Accordingly, property and equipment are carried at cost, less accumulated depreciation and impairment losses except for buildings. Buildings are recorded at the fair value and the amounts over carrying value of the buildings are recorded as revaluation surplus under the shareholders' equity. The fair values of property are determined by third party appraisers commissioned by BRSA and Capital Markets Board at the period ends.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Property and Equipment (continued)

Leased Assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as financial leases. Property and equipment acquired by way of financial lease are stated at amounts equal to the lower of their fair values and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Lease liabilities are reduced through repayments of principal, while the finance charge component of the lease payment is charged directly to the consolidated statement of comprehensive income.

Subsequent Expenditures

Expenditures incurred to replace a component of a property and equipment that is accounted for separately, and major inspection and overhaul costs, are capitalized. Other subsequent expenditures are capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditures are reflected as expense in the consolidated statement of comprehensive income as incurred.

Depreciation

Property and equipment are depreciated over their estimated useful lives on a straight-line basis from the date of their acquisition.

The estimated useful lives are as follows:

Buildings	50 years
Machinery and equipment	4 – 10 years
Office equipment, furniture and fixtures	3 – 50 years
Motor vehicles	4 – 5 years
Leasehold improvements	Lease period

Expenditures for major renewals and improvement of property and equipment are capitalized and depreciated over the remaining useful lives of the related assets.

2.8 Assets Held for Sale

Certain non-current assets primarily related to the collateral collected on non-performing loans are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

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

2.9 Intangible Assets

Intangible assets acquired separately from a business are capitalized at the restated cost until 31 December 2005. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged against profits in the year in which it is incurred. The useful lives of intangible assets are assessed to be either finite or indefinite.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Intangible Assets (continued)

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. 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 life of 3 – 15 years. There are no intangible assets with indefinite useful lives.

Gains or losses arising from 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 consolidated statement of comprehensive income when the asset is derecognized.

2.10 Investments and Other Financial Assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, available-for-sale financial assets and held to maturity financial assets. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. The Group determines the classification of its financial assets at initial recognition.

All regular way purchases and sales of financial assets are recognized on the settlement date, i.e. the date that the asset is delivered to or by the Group. 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.

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 and effective hedging instruments. Gains or losses on investments held for trading are recognized in the consolidated statement of comprehensive income.

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 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 the consolidated statement of comprehensive 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Investments and Other Financial Assets (continued)

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 other 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 equity until the investment is derecognized, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the consolidated statement of comprehensive income. However, interest calculated on available for sale financial assets using effective interest method is reported as interest income, and dividends are included in dividend income when the entity's right to receive payment is established.

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 date of the statement of financial position. For investments where there is no market price or market price is not indicative of the fair value of the instrument, fair value is determined by reference to the current market value of another instrument which is substantially the same, recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used. The Group has also available-for-sale securities recorded at amortized cost since no method is applicable to assess a reliable fair value.

Held to Maturity Financial Assets

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

Held-to-maturity investments are carried at amortised cost using the effective interest method. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and put restrictions on the Group for classifying investment securities as held-to-maturity for the current and the following two financial years. The Group has no financial assets classified as held to maturity as at 31 December 2012 and 2011.

2.11 Repurchase and Resale Transactions

The Group enters into sales of securities under agreements to repurchase such securities. Such securities, which have been sold subject to a repurchase agreement ('repos'), continue to be recognized in the consolidated statement of financial position and are measured in accordance with the accounting policy of the security portfolio which they are part of. Securities sold subject to repurchase agreements ('repos') are classified in the consolidated financial statements within the security portfolio they belong to. The counterparty liability for amounts received under these agreements is included in other money market deposits. The difference between sale and repurchase price is treated as interest expense and accrued over the life of the repurchase agreements using effective interest method.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only 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.

2.13 Recognition and Derecognition of Financial Instruments

The Group recognizes a financial asset or financial liability in its consolidated statement of financial position when and 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;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.13 Recognition and Derecognition of Financial Instruments (continued)

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 are 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 the consolidated statement of comprehensive income.

2.14 Cash and Cash Equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash and balances with central banks (excluding obligatory reserve deposits), deposits with banks and other financial institutions and other money market placements with original maturities of three months or less.

2.15 Impairment of Financial Assets

Assets Carried at Amortized Cost

The Group assesses at each date of statement of financial position whether there is objective evidence that a financial asset or group of financial assets is impaired. Objective evidence that a financial asset or group of assets is impaired includes observable data coming 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;

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Impairment of Financial Assets (continued)

(d) it 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

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss is recognized in the consolidated statement of comprehensive income. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The estimated recoverable amount of a collateralized financial asset is measured also taking into account the collateral amount that is expected to be realized from the foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

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

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

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 the consolidated statement of comprehensive income, 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 written off are included in the consolidated statement of comprehensive income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Impairment of Financial Assets (continued)

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 because 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 asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Available for Sale Financial Assets

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 the consolidated statement of comprehensive income, is transferred from equity to the consolidated statement of comprehensive income. Reversals in respect of equity instruments classified as available-for-sale are not recognized in the consolidated statement of comprehensive income. 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 consolidated statement of comprehensive income.

2.16 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 consolidated statement of comprehensive income when the liabilities are derecognized as well as through the amortization process.

2.17 Employee Benefits

(a) Reserve for employee termination benefits

In accordance with existing social legislation in Turkey, the Group is required to make lump-sum termination indemnities to each employee who has completed over one year of service with the Group and whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of an agreed formula, are subject to certain upper limits and are recognised in the accompanying consolidated financial statements as accrued. The reserve has been calculated by estimating the present value of the future obligation of the Group that may arise from the retirement of the employees.

In addition, in accordance with existing social legislation in Turkey, the Group pays contributions to publicly administered Social Security Funds on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

(b) Short term benefits

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

A provision is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Employee Benefits (continued)

Short term employee benefits include vacation pay liability. In Turkey, according to the legislation, the employer has to make payments for unused vacation days when the personnel leave the company. Vacation pay liability is the undiscounted amount calculated over the unused vacation days of the employee.

2.18 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) 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. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income 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. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

2.19 Leases

The Group as Lessee

Finance Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the estimated useful lives of the assets.

Operating Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

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

2.20 Income and Expense Recognition

Interest income and expense are recognized in the consolidated statement of comprehensive income 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, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Income and Expense Recognition (continued)

Fees and commissions are 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.

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

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes and dividends.

Dividends are recognized when the shareholders' right to receive the payments is established.

2.21 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.

Current Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the date of financial position.

Deferred Tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Income tax relating to items recognized directly in equity is recognized in equity.

2.22 Derivative Financial Instruments

The Group enters into derivative instrument transactions including forwards, swaps and options in the foreign exchange and capital markets. Most of these derivative transactions are considered as effective economic hedges under the Group's risk management policies; however since they do not qualify for hedge accounting under the specific provisions of IAS 39, they are treated as derivatives held for trading. Derivative financial instruments are initially recognized at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are recognized in the consolidated statement of comprehensive income.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Derivative Financial Instruments (continued)

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

2.23 Fiduciary Assets

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

2.24 Segment Reporting

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

2.25 Comparatives

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. On the statement of financial position, provision for non-cash loans and irrevocable commitments not indemnified amounting to TL 3,564 as at 31 December 2011, which was previously presented under "Loans and advances" line on the asset side, is reclassified under "Provisions" line on the liabilities side. On the statement of comprehensive income certain classifications are performed which mainly include reclassification of TL 3,471 from "Interest on funds borrowed" to "Foreign exchange gain/loss" account.

2.26 Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

2.27 New Standards and Interpretations Not Yet Adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2012, and have not been applied in preparing these consolidated financial statements. Among those new standards, the following are expected to have effect on the consolidated financial statements of the Group:

Amendments to *IAS 1 Presentation of Items of Other Comprehensive Income* require that an entity present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The amendments are effective for annual periods beginning on or after 1 July 2012.

IFRS 10 Consolidated Financial Statements supersedes IAS 27 (2008) and SIC-12 *Consolidation—Special Purpose Entities* and becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Interests in Other Entities contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities and becomes effective for annual periods beginning on or after 1 January 2013.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.27 New Standards and Interpretations Not Yet Adopted (continued)

IFRS 13 Fair Value Measurement replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance and becomes effective for annual periods beginning on or after 1 January 2013.

IAS 27 Separate Financial Statements (2011) supersedes IAS 27 *Consolidated and Separate Financial Statements* (2008) and becomes effective for annual periods beginning on or after 1 January 2013.

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

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

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

*IFRS 9 (201*0) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in other comprehensive income rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The IASB decided to consider making limited amendments to IFRS 9 to address practice and other issues. The Group has commenced the process of evaluating the potential effect of this standard but is awaiting finalisation of the limited amendments before the evaluation can be completed. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements.

IAS 19 Employee Benefits changes the definition of short-term and other long-term employee benefits (2011) to clarify the distinction between the two. For defined benefit plans, the accounting policy choice for recognition of actuarial gains and losses and corridor method are removed and IAS 19 revised (2011) is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

(Currency – In thousands of Turkish Lira (TL))

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.27 New Standards and Interpretations Not Yet Adopted (continued)

IFRS 7 Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements (Amended): New disclosures would provide users of financial statements with information that is useful in (a) evaluating the effect or potential effect of netting arrangements on an entity's financial position and (b) analysing and comparing financial statements prepared in accordance with IFRSs and other generally accepted accounting standards. The amendments are to be retrospectively applied for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods.

IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial liabilities (Amended)*: The amendments clarify the offsetting criteria when an entity currently has a legally enforceable right to set-off and also clarify the application of the IAS 32 offsetting criteria to settlement systems which apply gross settlement mechanisms that are not simultaneous. These amendments are to be retrospectively applied for annual periods beginning on or after 1 January 2014.

3. SEGMENT INFORMATION

Operating Segments

The Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting structure. The following summary describes the operations in each of the Group's reportable segments:

- *Retail Banking* — Includes loans, deposits and other transactions and balances with retail customers.
- *Corporate & SME Banking* — Includes loans, deposits and other transactions and balances with corporate and SME customers.
- *Other Operations* — Includes funds management and treasury activities.

Segment information at 31 December 2012 is as follows:

Year ended 31 December 2012

31 December 2012	Retail Banking	Corporate, Commercial & SME Banking	Other Operations	Total
Operating income	23,581	63,667	66,228	**153,476**
Operating expenses	(22,854)	(63,051)	(31,319)	**(117,224)**
Income/loss from operations	**727**	**616**	**34,909**	**36,252**
Taxation charge	-	-	(7,036)	**(7,036)**
Net income for the period	**727**	**616**	**27,873**	**29,216**
Assets and Liabilities				
Segment assets	394,448	2,261,232	1,011,375	**3,667,055**
Total assets	**394,448**	**2,261,232**	**1,011,375**	**3,667,055**
Segment liabilities	1,544,258	1,235,458	305,242	3,084,958
Shareholders' equity	-	-	582,097	582,097
Total liabilities and shareholders' equity	**1,544,258**	**1,235,458**	**887,339**	**3,667,055**

3. SEGMENT INFORMATION (continued)

Since the Group has changed the methodology and certain assumptions used for calculating and reporting the segment information in the period 2012, the segment reporting is not presented for the period ended at 31 December 2011.

4. FINANCIAL RISK MANAGEMENT

General

A dedicated member of the Board of Directors is assigned as Risk Supervisor who heads the Risk Management Group. The Risk Management Group reports to the Board of Directors and establishes the policies, procedures, parameters and rules for risk management of the Bank and develops risk management strategies. The Risk Management Group also sets critical risk limits and parameters for liquidity risk, credit risk, foreign exchange risk and interest rate risk and; through close monitoring of the markets and overall economy, such limits are changed as necessary. These limits and implementation policies are distributed to various levels of authorities in order to enhance control effectiveness. The Bank's risk positions are reported to the Board of Directors on a daily and weekly basis. Additionally, the Risk Management Group reviews the latest figures and projections for the Bank's profit and loss accounts and statement of financial position, liquidity position, interest and foreign exchange exposures, as well as yield analysis and macroeconomic environment.

The Asset and Liability Management Committee ("ALCO") sets the strategies concerning interest rate risk, foreign exchange risk and liquidity. ALCO meets weekly to review the latest figures on liquidity position, interest rate risk exposures, foreign exchange risk exposure, capital adequacy and the macroeconomic environment.

The objective of the Bank's Asset and Liability Management and use of financial instruments are to limit the Bank's exposure to liquidity risk, interest rate risk and foreign exchange risk, while ensuring that the Bank has sufficient capital adequacy and is using its capital to maximize net interest income.

Audit Committee

The Audit Committee consists of two members of the Board of Directors. The Audit Committee, established to assist the Board of Directors in its auditing and supervising activities, is responsible for:

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

Credit Risk

Financial instruments contain an element of risk that the counterparties may be unable to meet the terms of the agreements. The Bank's exposure to credit risk is concentrated in Turkey, where the majority of the activities are carried out. This risk is monitored by strictly adhering to credit risk ratings and managed by limiting the aggregate risk to any individual counterparty, group of companies and industry. The Bank has in place effective credit evaluation, disbursement and monitoring procedures, and senior management supports these control procedures. The credit risk is well diversified in general and does not concentrate in any one industry/sector nor does it single out companies of one specific size.

Exposure to credit risk is managed through regular analysis of the ability of immediate and potential borrowers to meet principal and interest repayment obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral as well as corporate and personal guarantees.

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

The credibility of the debtors of the Bank is assessed periodically concerning several criteria such as financial power of customers, business capacity, industry, geographical segment and equity structure and with taking notice of the financial statements of the debtors obtained thoroughly to be audited in accordance with the relevant legislation.

The risks and limits derived from treasury and client based commercial transactions are followed up daily. Additionally, the control of the limits of the correspondent banks is determined by their ratings and the control of the accepted risk level in relation to the Bank's equity is performed daily. The risk concentration of the off-balance sheet transactions is followed up using the Information Technology System.

The Board of Directors determines transaction limits for the forward and other similar agreement positions held by the Bank and transactions are handled within these limits.

Exposure to credit risk:

	31 December 2012			31 December 2011		
	Loans to customers	**Due from banks**	**Investment securities**	**Loans to customers**	**Due from banks**	**Investment securities**
Assets amortised at cost						
Individually impaired						
Loans and receivables with limited collectibility	9,774	-	-	22,404	-	-
Loans and receivables with doubtful collectibility	30,238	-	-	10,224	-	-
Uncollectible loans and receivables	95,161	-	-	74,543	-	-
Gross Amount	135,173	-	-	107,171	-	-
Allowance for impairment	(92,969)	-	-	(64,838)	-	-
Carrying amount	**42,204**	**-**	**-**	**42,333**	**-**	**-**
Loans with renegotiated terms	1,205	-	-	6,941	-	-
Carrying amount	**1,205**	**-**	**-**	**6,941**	**-**	**-**
Past due but not impaired						
Low fair risk	38,910	-	-	18,108	-	-
Closely monitored	37,161	-	-	16,655	-	-
Carrying amount	**76,071**	**-**	**-**	**34,763**	**-**	**-**
Neither past due nor impaired						
Low fair risk	2,498,069	117,536	-	2,409,587	107,542	-
Closely monitored	51,569	-	-	16,851	-	-
Carrying amount	**2,549,638**	**117,536**	**-**	**2,426,438**	**107,542**	**-**
Collective allowance for impairment	(21,742)	-	-	(20,191)	-	-
Carrying amount	**(21,742)**	**-**	**-**	**(20,191)**	**-**	**-**
Available for sale assets						
Individually impaired	-	-	-	-	-	-
Allowance for impairment	-	-	-	-	-	-
Neither past due nor impaired (*)	-	-	329,402	-	-	349,558
Carrying amount	**-**	**-**	**329,402**	**-**	**-**	**349,558**
Total carrying amount	**2,647,376**	**117,536**	**329,402**	**2,490,284**	**107,542**	**349,558**

(*) Excluding equity securities.

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

Impaired loans and receivables

Impaired loans and receivables are loans and receivables for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements.

Loans with renegotiated terms

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

Past due but not impaired loans

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

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio.

Write-off policy

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 with the approval of the Board of Directors after all the necessary procedures have been completed and the amount of the loss has been determined.

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

	Loans and advances to customers	
31 December 2012	**Gross**	**Net**
Loans and Receivables with Limited Collectability	9,774	7,699
Loans and Receivables with Doubtful Collectability	30,238	9,449
Uncollectible Loans and Receivables	95,161	25,056
Total	**135,173**	**42,204**

31 December 2011	**Gross**	**Net**
Loans and Receivables with Limited Collectibility	22,404	18,742
Loans and Receivables with Doubtful Collectibility	10,224	2,428
Uncollectible Loans and Receivables	74,543	21,163
Total	**107,171**	**42,333**

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

As at 31 December 2012 and 2011, the Group has no allowance for other assets such as loans and advances to banks and marketable securities. The Group has provided impairment for assets held for sale amounting to TL 838 as at 31 December 2012. As at 31 December 2011 there is impairment for equity participations recorded under other assets, assets held for sale and buildings amounting to TL 66, TL 1,289 and TL 699, respectively.

Collateral policy

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

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

Cash Loans	**2012**	**2011**
Secured loans:	2,480,276	2,214,765
Secured by mortgages	799,903	616,764
Secured by cash collateral	102,229	86,954
Secured by other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	1,578,144	1,511,047
Unsecured loans	146,638	253,377
Impaired loans, net	20,462	22,142
Total	**2,647,376**	**2,490,284**

Non-cash Loans	**2012**	**2011**
Secured loans:	1,032,962	985,468
Secured by mortgages	141,232	37,707
Secured by cash collateral	19,795	37,346
Secured by other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	871,935	910,415
Unsecured loans	215,149	239,680
Total	**1,248,111**	**1,225,148**

The breakdown of non-performing loans and receivables based on the types of colletarals held against them is as follows:

	2012	**2011**
Secured by mortgages	39,219	29,651
Pledge on vehicles and other collateral	3,330	3,436
Unsecured	92,624	74,084
Total	**135,173**	**107,171**

The collateral amounts on the table above represent the minimum of the fair value of the collateral or the amount of non-performing loan against which the collateral acquired.

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

The Group monitors concentrations of credit risk by sector and by geographic location. Industry exposure information for cash loans and non-cash loans is as follows:

	2012		2011	
	Cash	**Non-cash**	**Cash**	**Non-cash**
Construction	423,724	474,605	301,672	400,932
Service	223,408	59,648	168,914	34,525
Textile, Fabrics and Yarn Industry	165,592	55,267	133,606	73,032
Energy	134,573	60,940	95,077	86,395
Food and Beverages and Tobacco	162,126	31,140	206,103	62,006
Tourism	178,005	12,284	115,070	8,672
Iron and Steel	126,410	57,323	91,092	89,306
Finance	86,230	96,018	210,125	94,820
Chemistry and Plastics	99,123	66,266	62,260	52,118
Automotive	130,459	25,817	99,193	33,609
Manufacturing	76,664	79,020	107,449	58,903
Agriculture and Stockbreeding	79,088	66,745	27,884	46,860
Main Metal Product, Processed Materials	39,405	13,147	77,216	5,661
Optics and Electrical Equipments	25,367	16,439	61,925	63,492
Foreign Trade	23,010	8,505	58,954	17,568
Paper Production and Publishing	20,842	888	20,867	2,776
Others	273,471	124,059	293,356	94,473
Corporate loans	2,267,497	1,248,111	2,130,763	1,225,148
Consumer loans and credit cards	359,417	-	337,379	-
Loans in arrears	135,173	-	107,171	-
Provision for possible loan losses	(114,711)	-	(85,029)	-
Total	**2,647,376**	**1,248,111**	**2,490,284**	**1,225,148**

An analysis of sector concentrations of non-performing loans is shown below:

	2012	**2011**
Consumer loans and credit cards	24,248	22,386
Construction	21,660	16,438
Textile	13,457	9,728
Manufacturing	12,444	8,545
Chemistry and plastics	7,469	5,753
Automotive	7,283	8,544
Marine industry	7,030	7,041
Food	6,259	4,753
Foreign trade	4,874	34
Service	4,264	2,694
Agriculture and stockbreeding	2,543	1,843
Electronics	1,999	651
Finance	392	511
Other	21,251	18,250
Total non-performing loans	**135,173**	**107,171**

The Group's activities are mainly concentrated in Turkey. As at 31 December 2012 and 2011, cash loan portfolio including non-performing loans are granted fully in Turkey. As at 31 December 2012, deposits with foreign banks amount to TL 14,618 (2011 – TL 5,004).

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Credit Risk (continued)

As at 31 December 2012, the share of the Group's receivables from its top 100 cash credit customers in its total cash loan portfolio is 46% (2011 – 43%).

As at 31 December 2012, the share of the Group's receivables from its top 100 non-cash customers in its total non-cash loan portfolio is 72% (2011 – 73%).

Liquidity Risk

Liquidity risk occurs when there is an insufficient amount of cash or cash inflows to fulfill the cash outflows in full and on time, resulting from the unstable cash inflows.

Liquidity risk may occur when there is an inadequate market penetration and the open positions cannot be closed on a timely basis with an appropriate price and sufficient amount due to barriers and break-ups at the markets.

A main objective of the Bank's asset and liability management is to ensure that sufficient liquidity is available to meet the Bank's commitments to customers and counterparties. The Bank achieves this through the maintenance of a stock of high quality liquid assets.

Net outflows are monitored on a daily basis and the required minimum liquidity stock can be increased if these outflows exceed the predetermined target levels. The available free lines in the ISE (Istanbul Stock Exchange) Settlement and Custody Bank's Stock Exchange Money Market, Interbank and secondary market are monitored frequently. Regarding maturity mismatch risk in the statement of financial position, the maximum limits have been set by the Board of Directors.

Residual contractual maturities of financial liabilities (excluding derivatives):

31 December 2012	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Deposits from banks	53,569	53,624	39	53,585	-	-	-	-
Deposits from customers	2,656,509	2,668,472	252,147	1,733,721	551,444	131,079	81	-
Other money market deposits	11,156	11,156	-	11,156	-	-	-	-
Funds borrowed	249,101	252,660	-	42,788	27,540	179,292	3,040	-
Total	**2,970,335**	**2,985,912**	**252,186**	**1,841,250**	**578,984**	**310,371**	**3,121**	**-**

31 December 2011	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Deposits from banks	172	172	172	-	-	-	-	-
Deposits from customers	2,456,383	2,472,580	154,868	1,516,663	706,174	94,815	60	-
Other money market deposits	126,255	126,255	-	126,255	-	-	-	-
Funds borrowed	241,739	245,519	-	34,590	83,583	115,989	11,357	-
Total	**2,824,549**	**2,844,526**	**155,040**	**1,677,508**	**789,757**	**210,804**	**11,417**	**-**

Major part of the liquidity has been maintained by saving deposits in the Group. The volume of saving deposits has increased by 6% during the period, whereas the proportion of savings deposits over total deposits remained almost same at 58%.

(Currency – In thousands of Turkish Lira (TL))

4. 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 date of financial position to contractual maturity date.

	On Demand	Up to 1 month	1 to 3 months	3 to 6 Months	6 to 12 months	Over 1 year	Unallocated	Total
As at 31 December 2012								
Assets								
Cash and balances with Central Bank	273,181	-	-	-	-	-	-	273,181
Deposits with other banks and financial institutions	14,623	102,913	-	-	-	-	-	117,536
Money market receivables	-	3,000	-	-	-	-	-	3,000
Reserve deposits at Central Bank	89,653	-	-	-	-	-	-	89,653
Trading securities	1,678	-	-	-	-	367	-	2,045
Derivative financial instruments	-	3,355	262	158	-	-	-	3,775
Loans and advances	-	602,446	324,632	500,697	450,946	748,193	20,462	2,647,376
Investment securities	-	6,652	1,152	7,457	9,333	304,808	-	329,402
Assets held for sale	-	-	-	-	-	-	12,156	12,156
Property and equipment	-	-	-	-	-	-	94,216	94,216
Intangible assets	-	-	-	-	-	-	1,625	1,625
Deferred tax assets	-	-	-	-	-	6,217	-	6,217
Other assets	-	80,048	200	6,298	-	-	327	86,873
Total assets	**379,135**	**798,414**	**326,246**	**514,610**	**460,279**	**1,059,585**	**128,786**	**3,667,055**
Liabilities								
Deposits from banks	39	53,530	-	-	-	-	-	53,569
Deposits from customers	252,147	1,728,889	547,501	14,388	113,512	72	-	2,656,509
Other money market deposits	-	11,156	-	-	-	-	-	11,156
Derivative financial instruments	-	2,111	306	72	-	-	-	2,489
Funds borrowed	-	42,730	27,351	136,555	39,607	2,858	-	249,101
Other liabilities	75,202	11,719	4,705	4,871	-	196	-	96,693
Provisions	-	-	-	-	-	8,618	6,823	15,441
Total liabilities	**327,388**	**1,850,135**	**579,863**	**155,886**	**153,119**	**11,744**	**6,823**	**3,084,958**
Net liquidity gap	**51,747**	**(1,051,721)**	**(253,617)**	**358,724**	**307,160**	**1,047,841**	**121,963**	**582,097**
As at 31 December 2011								
Total assets	**310,419**	**702,144**	**452,551**	**580,108**	**375,910**	**947,817**	**118,009**	**3,486,958**
Total liabilities	**226,752**	**1,694,961**	**790,861**	**146,486**	**83,551**	**17,028**	**5,491**	**2,965,130**
Net liquidity gap	**83,667**	**(992,817)**	**(338,310)**	**433,622**	**292,359**	**930,789**	**112,518**	**521,828**

The liquidity analysis of the derivative transactions are presented in "Note 19. Derivatives" section.

As per the Banking Regulation and Supervision Agency's (BRSA) Communiqué published on the Official Gazette no.26333 dated 1 November 2006 and became effective starting from 1 January 2007, "Measurement and Assessment of the Adequacy of Banks' Liquidity", the weekly and monthly liquidity ratios on a bank-only basis for foreign currency assets/liabilities and total assets/liabilities should be minimum 80% and 100%, respectively. The Parent Bank's liquidity ratios for 2012 and 2011 are as follows:

	First Maturity Bracket		Second Maturity Bracket	
Liquidity Ratios	FC Liquidity Adequacy Ratio	Total Liquidity Adequacy Ratio	FC Liquidity Adequacy Ratio	Total Liquidity Adequacy Ratio
31 December 2012	229.2	268.1	127.4	129.4
Average (%)	231.1	238.7	114.4	123.7
Max. (%)	337.3	353.1	154.3	144.2
Min. (%)	140.4	180.8	87.7	111.9

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Liquidity Risk (continued)

	First Maturity Bracket		Second Maturity Bracket	
Liquidity Ratios	FC Liquidity Adequacy Ratio	Total Liquidity Adequacy Ratio	FC Liquidity Adequacy Ratio	Total Liquidity Adequacy Ratio
31 December 2011	198.0	183.5	127.2	130.9
Average (%)	232.5	215.9	129.0	135.2
Max. (%)	338.6	295.1	146.9	156.4
Min. (%)	127.0	166.8	90.3	122.6

Market Risk

The Group has established market risk management operations and has taken the necessary precautions in order to hedge market risk within its financial risk management purposes, in accordance with the Communiqué on "Internal Control and Risk Management Systems of Banks" announced in the Official Gazette dated 1 November 2006.

"General market risk" is the risk of loss composed of "interest rate risk", "position risk of equity securities" and "foreign exchange risk", regarding the assets and liabilities of the Group's on-off balance sheet, arising from changes in value of positions in the trading book due to changes in equity prices, interest rates and foreign currency exchange rates. The market risk is measured by employing the Value at Risk method. Value at Risk (VaR) is the amount, estimated by using various statistical methods that expresses the maximum loss for a given confidence interval and holding period which a bank may be exposed to as a result of changes in the value of its portfolio or its assets due to fluctuations in interest rates, foreign exchange rates and equity prices.

"Value at Risk" is calculated on a daily basis by employing Standard Method, and internal models (Parametric, Historical Simulation and Monte Carlo methods). In calculating VaR a one-tailed 99% confidence level is used regarding one-day holding period. The results are reported to the Senior Level Risk Committee and ALCO in regular periods. By regarding the VaR results, the risk of maturity mismatch is examined in the ALCO and the necessary measures are taken by the ALCO.

Standard method defined in the “Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks” published in Official Gazette no. 28337 dated 28 June 2012 is used in calculating the market risk. The criteria for the standard method have been set by the BRSA via section 2 of “Calculation of Market Risk” and “Regulation on Capital Requirement Calculation for Market Risk of Options”. Consolidated market risk is reported to BRSA on a quarterly basis, whereas bank only market risk is reported on a monthly basis. The consolidated value at market risks calculated as per the statutory consolidated financial statements prepared for BRSA reporting purposes are as follows:

	2012			
	As at 31 December 2012	**Average**	**Highest**	**Lowest**
Interest rate risk	79	70	79	60
Equity securities risk (*)	412	274	462	85
Currency risk	131	278	425	131
Commodity risk	-	-	-	-
Option risk	-	1,057	2,114	-
Counterparty credit risk (**)	267	188	267	109
Total value at risk (***)	**11,113**	**23,681**	**35,538**	**11,113**

(*) VaR for mutual funds in trading securities are included here.

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Market Risk (continued)

(**) Represents counterparty credit risk for only trading accounts.

(***) The minimum and maximum values of Total VaR represent the minimum and maximum values of quarter-end calculated total VaRs, and are not related to the aggregate of the components of them stated in the table.

Since the calculation of market risk has been revised effective from 1 July 2012, the table above is presented only for the period after 1 July 2012 and comparative figures are not presented.

Currency Risk

Foreign currency risk indicates the possibilities of the potential losses that banks are subject to due to adverse movements between currencies. The Treasury manages the Bank's structural foreign exchange risk arising from net position in foreign currencies, mostly in US Dollar and Euro.

The Group's foreign currency position risk is measured by "Standard Method" and Internal Models.

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

	Turkish Lira	US Dollars	Euro	Others	Total
As at 31 December 2012					
Assets					
Cash and balances with Central Bank (**)	96,972	137,369	5,572	33,268	273,181
Deposits with other banks and financial institutions	7,507	84,019	23,371	2,639	117,536
Money market receivables	3,000	-	-	-	3,000
Reserve deposits at Central Bank	-	89,653	-	-	89,653
Trading securities	1,678	314	53	-	2,045
Loans and advances	1,839,497	561,410	219,146	27,323	2,647,376
Investment securities	321,968	7,408	26	-	329,402
Assets held for sale	12,156	-	-	-	12,156
Property and equipment	94,216	-	-	-	94,216
Intangible assets	1,625	-	-	-	1,625
Deferred tax assets	6,217	-	-	-	6,217
Other assets	80,933	3,333	2,584	23	86,873
Total assets (*)	**2,465,769**	**883,506**	**250,752**	**63,253**	**3,663,280**
Liabilities					
Deposits from banks	7	53,562	-	-	53,569
Deposits from customers	1,504,315	756,164	388,209	7,821	2,656,509
Other money market deposits	11,156	-	-	-	11,156
Funds borrowed	33,943	93,085	121,349	724	249,101
Other liabilities	87,048	5,332	4,090	223	96,693
Provisions	15,441	-	-	-	15,441
Total liabilities (*)	**1,651,910**	**908,143**	**513,648**	**8,768**	**3,082,469**
Net on-balance sheet position	**813,859**	**(24,637)**	**(262,896)**	**54,485**	**580,811**
Off-balance sheet position					
Net notional amount of derivatives (***)	(232,261)	24,967	262,688	(54,165)	1,229
Net Position	**581,598**	**330**	**(208)**	**320**	**582,040**
As at 31 December 2011					
Total assets (*)	2,270,785	911,406	240,815	39,531	3,462,537
Total liabilities (*)	1,619,356	903,460	407,642	7,559	2,938,017
Net on-balance sheet position	651,429	7,946	(166,827)	31,972	524,520
Off-balance sheet position	(124,600)	(12,883)	166,144	(31,179)	(2,518)
Net Position	**526,829**	**(4,937)**	**(683)**	**793**	**522,002**

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Currency Risk (continued)

(*) The amounts recorded as derivative financial instruments on asset and liability sides are not included above.

(**) As at 31 December 2012, precious metal amounting to TL 32,048 standing in Central Bank of Turkey accounts is consolidated in Others column above (2011 – None).

(***) As at 31 December 2012, precious metal swap sales transaction amounting to TL 32,047 is consolidated in Others column above (2011 – None).

Exposure to currency risk

A 10 percent devaluation of the TL against the following currencies as at 31 December 2012 and 2011 would have decreased equity and profit or loss (without tax effects) by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	31 December 2012		31 December 2011	
	Profit or loss	**Equity (*)**	**Profit or loss**	**Equity (*)**
US Dollar	33	33	(581)	(494)
Euro	(21)	(21)	(68)	(68)
Other currencies	32	32	79	79
Total, net	**44**	**44**	**(570)**	**(483)**

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

Cash Flow and Fair Value Interest Rate Risk

“Interest rate risk” is the probability of loss due to changes in interest rates depending on the Group’s position regarding the interest bearing financial instruments. Interest rate risk arises as a result of timing differences on the re-pricing of assets and liabilities, changes in correlation of interest rates between different financial instruments and, unexpected changes in the shape and slope of yield curves. Exposure to interest rate movements arises when there is a mismatch between interest rate sensitive assets and liabilities. In Turkey, the interest rates are highly volatile. Therefore, interest rate risk is the key component of the Bank's asset and liability management. Interest risk is managed on a portfolio basis by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities. Special emphasis is given to providing a balance between the duration of assets and liabilities. Duration, gap and sensitivity analysis are the main methods used to manage the risks. The Bank closely monitors interest rate movements, the interest rate and, re-pricing maturity structure of its interest bearing assets and liabilities and the level of non-interest bearing assets and liabilities.

(Currency – In thousands of Turkish Lira (TL))

4. 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 date of statement of financial position to the re-pricing date:

	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years	Non interest bearing	Total
As at 31 December 2012								
Assets								
Cash and balances with Central Bank	-	-	-	-	-	-	273,181	273,181
Deposits with other banks and financial institutions	102,913	-	-	-	-	-	14,623	117,536
Money market receivables	3,000	-	-	-	-	-	-	3,000
Reserve deposits at Central Bank	-	-	-	-	-	-	89,653	89,653
Trading securities	-	-	-	-	174	193	1,678	2,045
Derivative financial instruments	3,355	262	158	-	-	-	-	3,775
Loans and advances	1,315,923	166,383	181,783	268,642	545,432	148,751	20,462	2,647,376
Investment securities	101,900	116,229	88,676	90	22,478	29	-	329,402
Assets held for sale	-	-	-	-	-	-	12,156	12,156
Property and equipment	-	-	-	-	-	-	94,216	94,216
Intangible assets	-	-	-	-	-	-	1,625	1,625
Deferred tax assets	-	-	-	-	-	-	6,217	6,217
Other assets	-	-	-	-	-	-	86,873	86,873
Total assets	**1,527,091**	**282,874**	**270,617**	**268,732**	**568,084**	**148,973**	**600,684**	**3,667,055**
Liabilities								
Deposits from banks	53,530	-	-	-	-	-	39	53,569
Deposits from customers	1,728,889	547,524	14,392	113,524	33	-	252,147	2,656,509
Other money market deposits	11,156	-	-	-	-	-	-	11,156
Derivative financial instruments	2,111	306	72	-	-	-	-	2,489
Funds borrowed	42,784	27,351	136,500	39,608	2,858	-	-	249,101
Other liabilities	-	-	-	-	-	-	96,693	96,693
Provisions	-	-	-	-	-	-	15,441	15,441
Total liabilities	**1,838,470**	**575,181**	**150,964**	**153,132**	**2,891**	**-**	**364,320**	**3,084,958**
Interest sensitivity gap	**(311,379)**	**(292,307)**	**119,653**	**115,600**	**565,193**	**148,973**	**236,364**	**582,097**
As at 31 December 2011								
Total assets	**1,331,221**	**397,466**	**270,711**	**275,176**	**576,898**	**93,586**	**541,900**	**3,486,958**
Total liabilities	**1,687,428**	**785,506**	**133,100**	**83,571**	**7,017**	**-**	**268,508**	**2,965,130**
Interest sensitivity gap	**(356,207)**	**(388,040)**	**137,611**	**191,605**	**569,881**	**93,586**	**273,392**	**521,828**

The following table indicates the effective interest rates by major currencies for the major components of the statement of financial position for 2012 and 2011:

31 December 2012	**Euro %**	**US Dollar %**	**Other currencies %**	**TL %**
Cash and balances with Central Bank	-	-	-	-
Deposits with other banks	0.78	0.48	-	7.25
Loans and advances to customers	6.88	7.39	8.21	13.02
Investment securities	4.76	6.33	-	5.24
Deposits from banks	-	2.38	-	-
Deposits from customers	3.65	3.63	4.21	8.80
Obligations under repurchase agreements	-	-	-	5.13
Funds borrowed	3.20	3.00	-	8.01

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Cash Flow and Fair Value Interest Rate Risk (continued)

31 December 2011	Euro %	US Dollar %	Other currencies %	TL %
Cash and balances with Central Bank	-	-	-	-
Deposits with other banks	1.00	0.67	-	13.59
Loans and advances to customers	7.06	7.05	8.60	15.47
Investment securities	4.62	5.48	-	6.59
Deposits from banks	-	-	-	-
Deposits from customers	5.04	5.18	4.02	11.78
Obligations under repurchase agreements	-	-	-	7.94
Funds borrowed	4.49	2.83	-	7.48

In accordance with the BRSA's "Regulation on Measurement and Assessment of Standard Shock Method on the Interest Rate Risk Arising from Banking Accounts", published in the Official Gazette numbered 28034 and dated 23 August 2011, the interest rate risk of the banking book items (items other than trading accounts) is measured and reported monthly to BRSA. The interest rate risks of financial instruments on trading portfolio are considered within the scope of the market risk.

In accordance with the communiqué on "Standard Shock Measurement and Evaluation Method of the Interest Rate Risk in Banking Accounts", for unconsolidated statutory accounts of the Bank, economic valuation differences arising from fluctuations in interest rates, in different currencies are presented in the table below (excluding tax effect) as of 31 December 2012 and 2011.

31 December 2012	Shocks Applied (+/- basis points)	Gains/(Losses)	Gains/Equity*- (Losses/Equity)
TL	100	(9,559)	%(1.7)
	(100)	9,874	%1.8
Euro	100	605	%0.1
	(100)	73	%0.0
US Dollar	100	(5,413)	%(1.0)
	(100)	4,368	%0.8
Total (of negative shocks)		**14,315**	**%2.6**
Total (of positive shocks)		**(14,367)**	**%(2.6)**

31 December 2011	Shocks Applied (+/- basis points)	Gains/(Losses)	Gains/Equity*- (Losses/Equity)
TL	100	(8,671)	%(1.7)
	(100)	8,952	%1.7
Euro	100	(487)	%(0.1)
	(100)	179	%0.0
US Dollar	100	(3,118)	%(0.6)
	(100)	1,449	%0.3
Total (of negative shocks)		**10,580**	**%2.0**
Total (of positive shocks)		**(12,276)**	**%(2.4)**

* Equity represents the BRSA's statutory equity.

4. FINANCIAL RISK MANAGEMENT (continued)

Operational Risk

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

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

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

The Group calculated the value at operational risk in accordance with the "Computation of Value of Operational Risk" of the circular, "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette dated 28 June 2012, using gross profit of the last three years 2009, 2010 and 2011 by using "Basic Indicator Approach" method. Value at operational risk, used in calculation of capital adequacy ratio, is amounting to TL 280,233. The 8% of VaR; TL 22,419 as at 31 December 2012 represents the operational risk that the Bank may be exposed to and the amount of minimum capital requirement to eliminate this risk.

Capital Adequacy

BRSA sets and monitors capital requirements for the Bank both on unconsolidated and consolidated basis. Additionally, the consolidated subsidiary; Tekstil Yatırım is supervised by Turkish Capital Market Board regarding capital adequacy ratios and related calculations.

Capital adequacy ratio is calculated within the scope of the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks", "Regulation on Credit Risk Mitigation Techniques" and "Regulation on Capital Market Requirement Calculation for Market Risk of Options" published in the Official Gazette numbered 28337 dated 28 June 2012 and the "Regulation on Equities of Banks" published in the Official Gazette numbered 26333 dated 1 November 2006.

In the calculation of consolidated capital adequacy standard ratio, the accounts and transactions are evaluated by taking into account the relevant legislation. Accounts and transactions are classified in two separate portfolio as "trading accounts" and "banking accounts" and are used in the calculation of market and credit risks. Trading accounts and items deducted from the capital are not considered in the calculation of credit risks. In the calculation of risk weighted assets, amortized and impaired assets are accounted by net amounts after deducting the related amortization and provision amounts.

In the calculation of the amount subject to credit risk, the Group assesses its loans and receivables by taking the risk classes, rating notes and risk mitigation into consideration. "Simple financial collateral method" is used for banking accounts while "comprehensive financial collateral method" is used for trading accounts for taking risk mitigation elements into consideration.

(Currency – In thousands of Turkish Lira (TL))

4. FINANCIAL RISK MANAGEMENT (continued)

Capital Adequacy (continued)

Counterparty Credit Risk is calculated for derivative transactions, repo transactions, security-stock lending transactions, overdraft security transactions and long term trade transactions.

In implementing current capital requirements, BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total risk-weighted assets. The Bank and its subsidiaries' consolidated regulatory capital is analyzed into two tiers:

- Tier 1 capital, which includes paid-in capital, share premium, legal reserves, retained earnings, translation reserve and minority interest after deductions for goodwill and certain cost items.
- Tier 2 capital, which includes qualifying subordinated liabilities, general loan loss provision calculated and recorded in accordance with BRSA standards and the element of the fair value reserve relating to unrealized gains on securities classified as available-for-sale.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. There have been no material changes in the Bank's management of capital during the period.

The Bank and its individually regulated operations have complied with externally imposed capital requirements throughout the period.

The regulatory capital and the capital adequacy ratio declared by the Bank as at 31 December 2012 are as follows:

31 December 2012	Consolidated	Bank Only
Amount subject to credit risk (I)	3,149,225	3,150,013
Amount subject to market risk (II)	11,113	6,338
Amount subject to operational risk (III)	280,238	263,663
Total Risk-weighted assets and value at market risk and operational risk (I+II+III)=(IV)	**3,440,576**	**3,420,014**
Tier 1 Capital	522,274	519,976
Tier 2 Capital	47,303	47,302
Deductions from Capital	(3,083)	(3,083)
Total Regulatory Capital	**566,494**	**564,195**
Total regulatory capital expressed as a percentage of total risk-weighted assets and value at risks	**16.47%**	**16.50%**
Total tier 1 capital expressed as a percentage of total risk-weighted assets and value at risks	**15.18%**	**15.20%**

(Currency – In thousands of Turkish Lira (TL))

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Values

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

	Carrying amount		Fair value	
	2012	**2011**	**2012**	**2011**
Financial assets				
Loans and advances	2,647,376	2,490,284	2,643,124	2,461,094
	2,647,376	**2,490,284**	**2,643,124**	**2,461,094**
Financial liabilities				
Deposits from other banks	53,569	172	53,569	172
Deposits from customers	2,656,509	2,456,383	2,659,333	2,455,992
Funds borrowed	249,101	241,739	250,253	241,511
	2,959,179	**2,698,294**	**2,963,155**	**2,697,675**

Loans and Advances

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

Deposits and Funds Borrowed

The estimated fair values of deposits from other banks and customer with no stated maturity, which includes non-interest bearing deposits, are 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 Bank, deposits with banks, other money market placements, reserve deposits and other money market deposits are considered to approximate their respective carrying values due to their short-term nature.

Fair Value Hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed debt instruments.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the OTC derivative contracts. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

(Currency – In thousands of Turkish Lira (TL))

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair Value Hierarchy (continued)

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

Fair value hierarchy of the financial assets and liabilities of the Bank carried at fair value according to the foregoing principles as at 31 December 2012 and 2011, is given in the tables below:

	31 December 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Trading securities				
Eurobonds issued by the Turkish government	367	-	-	367
Equity securities	428	-	-	428
Other securities	-	1,250	-	1,250
Investment securities - available for sale				
Turkish government bonds	321,000	-	-	321,000
Eurobonds issued by the Turkish government	54	-	-	54
Other debt securities	968	-	7,380	8,348
Derivative financial instruments	-	3,775	-	3,775
Total assets carried at fair value	**322,817**	**5,025**	**7,380**	**335,222**
Derivative financial instruments	-	2,489	-	2,489
Total liabilities carried at fair value	**-**	**2,489**	**-**	**2,489**

	31 December 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
Trading securities				
Eurobonds issued by the Turkish government	404	-	-	404
Equity securities	375	-	-	375
Other securities	-	634	-	634
Investment securities - available for sale				
Equity securities	660	-	-	660
Turkish government bonds	319,924	-	-	319,924
Eurobonds issued by the Turkish government	12,708	-	-	12,708
Other debt securities	-	-	16,926	16,926
Derivative financial instruments	-	24,421	-	24,421
Other equity participations	-	-	42	42
Total assets carried at fair value	**334,071**	**25,055**	**16,968**	**376,094**
Derivative financial instruments	-	27,113	-	27,113
Total liabilities carried at fair value	**-**	**27,113**	**-**	**27,113**

(Currency – In thousands of Turkish Lira (TL))

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Fair Value Hierarchy (continued)

The following table shows a reconciliation of the fair value measurements in Level 3 of the fair value hierarchy for the year 2012:

Available-for-sale securities	**2012**	**2011**
Balance at 1 January	16,926	15,418
Additions	-	7,221
Disposals	(8,916)	(7,878)
Foreign exchange differences	(630)	2,165
Balance at 31 December	**7,380**	**16,926**

The gains included in the profit or loss for the year 2012 from the disposals presented above is amounted to TL 119 (2011 – TL 132).

6. CASH AND CASH EQUIVALENTS

	2012	**2011**
Cash on hand	30,468	28,358
Balances with Central Bank	242,713	176,926
Cash and balances with central banks	**273,181**	**205,284**
Deposits with other banks and financial institutions	**117,536**	**107,542**
Money market receivables	**3,000**	**-**
Cash and cash equivalents in the statement of financial position	**393,717**	**312,826**
Less: Income accrual	(14)	(23)
Cash and cash equivalents in the statement of cash flows	**393,703**	**312,803**

As at 31 December 2012 and 2011, deposits and placements due from are as follows:

	2012				**2011**			
	Amount		**Effective interest rate (%)**		**Amount**		**Effective interest rate (%)**	
	Turkish Lira	**Foreign Currency**	**Turkish Lira**	**Foreign Currency**	**Turkish Lira**	**Foreign Currency**	**Turkish Lira**	**Foreign Currency**
Balances with Central Bank	79,616	163,097	-	-	82,371	94,555	-	-
Deposits with other banks and financial institutions	7,507	110,029	-	0.4 – 0.5	10,162	97,380	12.8	0.2 – 6.5
Money market receivables	3,000	-	5.7	-	-	-	-	-
Total	**90,123**	**273,126**			**92,533**	**191,935**		

(Currency – In thousands of Turkish Lira (TL))

7. RESERVE DEPOSITS AT THE CENTRAL BANK

	2012	2011
Foreign currency	89,653	98,457
Total	**89,653**	**98,457**

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

As at 31 December 2012, reserve deposit rates applicable for Turkish Lira liabilities are as follows:

TL Liabilities	Required Reserve Ratio (%)
Demand deposits, notice deposits, private current accounts	11
Deposits/participation accounts up to 1 month maturity	11
Deposits/participation accounts up to 3 months maturity	11
Deposits/participation accounts up to 6 months maturity	8
Deposits/participation accounts up to 1 year maturity	6
Deposits/participation accounts with 1 year and longer maturity and cumulative deposits/participation accounts	5
Special funds	Ratios corresponding to maturities
TL other liabilities accounts up to 1 year maturity (including 1 year)	11
TL other liabilities accounts up to 3 years maturity (including 3 years)	8
TL other liabilities longer than 3 years maturity	5

Turkish Lira balances are included in "Balances with Central Bank".

As at 31 December 2012, reserve deposit rates applicable for foreign currency liabilities are as follows:

Foreign Currency Liabilities	Required Reserve Ratio (%)
FC demand deposits, notice deposits, foreign currency private current accounts	11.5
FC Deposits/participation accounts up to 1 month maturity	11.5
FC Deposits/participation accounts up to 3 month maturity	11.5
FC Deposits/participation accounts up to 6 month maturity	11.5
FC Deposits/participation accounts up to 1 year maturity	11.5
FC deposits/participation accounts with 1 year and longer maturity and cumulative deposits/participation accounts	9.0
Special funds	Ratios corresponding to maturities
Other foreign currency accounts up to 1 year maturity (including 1 year)	11.5
Other foreign currency accounts up to 3 years maturity (including 3 years)	9.5
Other foreign currency accounts longer than 3 years maturity	6.0

As at 31 December 2012 and 2011, no interest is applied for reserve deposit balances by the Central Bank.

(Currency – In thousands of Turkish Lira (TL))

8. TRADING SECURITIES

	2012		2011	
	Amount	**Effective Interest Rate (%)**	**Amount**	**Effective Interest Rate (%)**
Debt instruments				
Eurobonds issued by the Turkish government	367	1.4-4.5	404	4.3-7.1
Other instruments				
Equity securities	428	-	375	-
Mutual funds	1,250	-	634	-
Total trading securities	**2,045**		**1,413**	

Trading debt securities have fixed rates.

As at 31 December 2012 and 2011, none of the trading securities are kept as collateral or guarantee.

9. INVESTMENT SECURITIES

Available for Sale Securities

	2012		2011	
	Amount	**Effective Interest Rate (%)**	**Amount**	**Effective Interest Rate (%)**
Equity instruments				
Equity securities	-	-	660	-
Debt instruments				
Turkish government bonds	321,000	2.7 – 11.4	319,924	2.5 – 17.4
Eurobonds issued by Turkish government	54	4.3 – 6.3	12,708	4.8 – 6.4
Other debt securities	8,348	6.3 – 9.9	16,926	6.0 – 12.1
Total available for sale securities at fair value	**329,402**		**350,218**	

As at 31 December 2012, TL 288,943 (2011 – TL 224,103) of available for sale securities has floating interest rates and the remaining portion has fixed rates.

The movement in available for sale securities is summarized as follows:

Available for Sale Securities	**2012**	**2011**
At 1 January	350,218	323,363
Foreign exchange differences	(1,362)	4,189
Purchases	242,956	219,040
Disposals (sale or redemption)	(262,410)	(196,374)
At 31 December	**329,402**	**350,218**

As at 31 December 2012, TL 9,256 (2011 – TL 39,020) of available-for-sale securities is kept as a guarantee for stock exchange and other money market operations.

(Currency – In thousands of Turkish Lira (TL))

9. INVESTMENT SECURITIES

Available for Sale Securities (continued)

As at 31 December 2012 and 2011, certain portion of available for sale securities is pledged under repurchase agreements. Carrying value of securities pledged under repurchase agreements and carrying value of liabilities that are related to such securities are as follows:

	2012	2011
Carrying value of securities pledged under repurchase agreements	11,462	129,268
Carrying value of liabilities of such securities	11,156	126,255

Repurchase agreements mature within one month.

Gains and losses from investment securities comprise of TL 4,359 for derecognition of available for sale securities for the year ended 31 December 2012 (2011 – TL 144).

Held to Maturity Securities

As at 31 December 2012 and 2011, there are no securities classified under held to maturity portfolio.

10. LOANS AND ADVANCES

	2012						
	Amount				Effective interest rate (%)		
	Turkish Lira	Foreign Currency	Foreign Currency Indexed	Total	Turkish Lira	Foreign Currency	Foreign Currency Indexed
Corporate loans	1,478,124	581,179	208,194	2,267,497	8.0-33.9	2.8-15.5	4.8-13.0
Consumer loans	305,813	10,439	7,593	323,845	4.4-25.5	7.4	4.9-9.8
Credit cards	35,098	474	-	35,572	15.0-34.0	-	-
Total loans	1,819,035	592,092	215,787	2,626,914			
Loans under follow-up	135,173	-	-	135,173			
Less: Allowance for losses on loans and advances	(114,711)	-	-	(114,711)			
Total	**1,839,497**	**592,092**	**215,787**	**2,647,376**			

	2011						
	Amount				Effective interest rate (%)		
	Turkish Lira	Foreign Currency	Foreign Currency Indexed	Total	Turkish Lira	Foreign Currency	Foreign Currency Indexed
Corporate loans	1,322,661	515,954	292,148	2,130,763	10.0-33.4	0.8-15.8	4.2-13.3
Consumer loans	295,491	-	14,148	309,639	2.7-25.5	-	4.9-10.2
Credit cards	27,235	505	-	27,740	34.0	-	-
Total loans	1,645,387	516,459	306,296	2,468,142			
Loans under follow-up	107,171	-	-	107,171			
Less: Allowance for losses on loans and advances	(85,029)	-	-	(85,029)			
Total	**1,667,529**	**516,459**	**306,296**	**2,490,284**			

The portfolio reserve amounting to TL 21,742 (2011 – TL 20,191) for impairment is provided based on past experience, management's assessments of the current economic conditions and the quality and inherent risk in the credit portfolio of the Group. It is included in the total allowance presented in table above.

(Currency – In thousands of Turkish Lira (TL))

10. LOANS AND ADVANCES (continued)

Movements in the allowance for impairment	**2012**	**2011**
Specific allowance for impairment		
Allowance at beginning of year	64,838	58,746
Charge for the year	32,255	12,676
Recoveries	(4,037)	(6,509)
Provision net of recoveries	28,218	6,167
Loans written off during the year	(87)	(75)
Balance at 31 December	92,969	64,838
Collective allowances for impairment		
Allowance at beginning of year	20,191	12,637
Charge for the year	1,551	7,554
Balance at 31 December	21,742	20,191
Total allowances for impairment	**114,711**	**85,029**

Reconciliation of provision for impairment of loans and advances	**2012**	**2011**
Impairment loss for specific allowances	28,218	6,167
Impairment loss for collective allowances	1,551	7,554
Total provision net of recoveries – for cash loans	29,769	13,721
Provision net of recoveries – for non-cash loans and commitments (Note 17)	855	663
Total provision for impairment of loans and advances	30,624	14,384

As at 31 December 2012, the amount of loans and advances, on which interest is not being accrued or where interest is suspended, is TL 135,173 (2011 – TL 107,171).

As at 31 December 2012, TL 1,014,554 (2011 – TL 828,749) of loans and advances have floating interest rates and the remaining portion has fixed rates.

11. ASSETS HELD FOR SALE

Assets held for sale comprise mainly property, acquired from defaulted loan customers and will be mainly realized through sale.

	2012	**2011**
Opening balance at 1 January	13,811	12,467
Additions	3,555	7,872
Disposals, net	(4,895)	(6,136)
Net (charge) / reversal of provision for impairment	(315)	(392)
Closing balance at 31 December	**12,156**	**13,811**

As at 31 December 2012, the impairment on assets held for sale, which is based on independent appraisal reports, is amounted to TL 2,136 (2011 – TL 1,2,201). The amount of reversal of impairment for the items disposed is TL 380 (2011 – TL 475).

(Currency – In thousands of Turkish Lira (TL))

12. PROPERTY AND EQUIPMENT

	Buildings	Furniture and Office Equipment	Leased Assets	Motor Vehicles	Total
At 1 January 2012					
Net of accumulated depreciation and impairment	75,430	4,428	119	36	80,013
Additions	-	2,543	-	-	2,543
Disposals, net (**)	(390)	(79)	-	-	(469)
Revaluation and impairment, net	15,344	-	-	-	15,344
Depreciation charge for the year	(1,464)	(1,657)	(85)	(9)	(3,215)
At 31 December 2012, net of accumulated depreciation and impairment	**88,920**	**5,235**	**34**	**27**	**94,216**
At 1 January 2012					
Cost	76,002	28,044	6,755	705	111,506
Revaluation and impairment, net (*)	19,132	-	-	-	19,132
Accumulated depreciation	(19,704)	(23,616)	(6,636)	(669)	(50,625)
Net carrying amount	**75,430**	**4,428**	**119**	**36**	**80,013**
At 31 December 2012					
Cost	74,472	29,293	6,499	479	110,743
Revaluation and impairment, net (*)	35,175	-	-	-	35,175
Accumulated depreciation	(20,727)	(24,058)	(6,465)	(452)	(51,702)
Net carrying amount	**88,920**	**5,235**	**34**	**27**	**94,216**

(*) As at 31 December 2012, there is TL 35,175 revaluation surplus on buildings (2011 – TL 19,831 revaluation surplus and TL 699 impairment). At the current period, TL 699 impairment has been reversed due to sales of impaired buildings. Such revaluation surplus and impairment are identified as the difference between the net book value and the fair value of property at the reporting date; the date of revaluation. Fair values are determined by a third party appraiser commissioned by BRSA and Capital Markets Board.

(**) The cost and accumulated depreciation of disposed assets as at 31 December 2012 are as follows:

At 31 December 2012	Buildings	Furniture and Office Equipment	Leased Assets	Motor Vehicles	Total
Cost	1,530	1,294	256	226	3,306
Impairment (-)	699	-	-	-	699
Accumulated depreciation and impairment (-)	441	1,215	256	226	2,138
Net disposal amount	390	79	-	-	469

(Currency – In thousands of Turkish Lira (TL))

12. PROPERTY AND EQUIPMENT (continued)

	Buildings	Furniture and Office Equipment	Leased Assets	Motor Vehicles	Total
At 1 January 2011					
Net of accumulated depreciation and impairment	72,406	4,180	499	61	77,146
Additions	-	2,024	-	37	2,061
Disposals, net (*)	-	(28)	(1)	-	(29)
Revaluation and impairment, net	4,484	-	-	-	4,484
Depreciation charge for the year	(1,460)	(1,748)	(379)	(62)	(3,649)
At 31 December 2011, net of accumulated depreciation and impairment	**75,430**	**4,428**	**119**	**36**	**80,013**
At 1 January 2011					
Cost	76,002	33,377	7,874	810	118,063
Revaluation and impairment, net	14,648	-	-	-	14,648
Accumulated depreciation	(18,244)	(29,197)	(7,375)	(749)	(55,565)
Net carrying amount	**72,406**	**4,180**	**499**	**61**	**77,146**
At 31 December 2011					
Cost	76,002	28,044	6,755	705	111,506
Revaluation and impairment, net	19,132	-	-	-	19,132
Accumulated depreciation	(19,704)	(23,616)	(6,636)	(669)	(50,625)
Net carrying amount	**75,430**	**4,428**	**119**	**36**	**80,013**

(*) The cost and accumulated depreciation of disposed assets as at 31 December 2011 are as follows:

At 31 December 2011	Buildings	Furniture and Office Equipment	Leased Assets	Motor Vehicles	Total
Cost	-	7,357	1,119	142	8,618
Accumulated depreciation (-)	-	7,329	1,118	142	8,589
Net disposal amount	-	28	1	-	29

There is no capitalized borrowing costs related to the acquisition of the property and equipment during the year (2011: None).

13. INTANGIBLE ASSETS

Software Licenses and Other	**2012**	**2011**
Beginning of the year, net of accumulated amortization	1,532	1,667
Additions	360	180
Disposals, net	-	-
Amortization charge for the year	(267)	(315)
At the end of the year, net of accumulated amortization	**1,625**	**1,532**
At beginning of the year		
Cost	17,958	17,778
Accumulated amortization	(16,426)	(16,111)
Net carrying amount	**1,532**	**1,667**
At end of the year		
Cost	18,318	17,958
Accumulated amortization	(16,693)	(16,426)
Net carrying amount	**1,625**	**1,532**

(Currency – In thousands of Turkish Lira (TL))

14. OTHER ASSETS

	2012	2011
Transitory receivables (*)	70,245	44,535
Collaterals given	9,164	52,801
Prepaid expenses	1,119	1,306
Payments for mutual funds	694	1,922
Receivables from credit cards and debit cards	363	341
Office supply inventory	327	469
Other equity participations (**)	-	42
Others	4,961	3,811
	86,873	**105,227**

(*) Transitory receivables mainly include receivables from clearing house of cheques and amounts pending to be transferred at government agencies.

(**) As at 31 December 2011, TL 66 provision has been provided for impairment on equity participations.

15. DEPOSITS

Deposits from Banks

	2012				2011			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Demand	7	32	-	-	28	144	-	-
Time	-	53,530	-	2.4	-	-	-	-
Total	**7**	**53,562**			**28**	**144**		

Deposits from Customers

	2012				2011			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Saving								
Demand	12,444	16,405	-	-	17,138	12,381	-	-
Time	959,115	548,793	1.0 – 10.8	0.3 – 4.5	825,825	599,178	3.7 – 13.9	0.9 – 6.3
	971,559	**565,198**			**842,963**	**611,559**		
Commercial and other								
Demand	84,503	138,795	-	-	79,762	45,587	-	-
Time	448,253	448,201	1.0 – 10.8	0.3 – 4.0	431,920	444,592	3.6 – 13.9	0.2 – 6.3
	532,756	**586,996**			**511,682**	**490,179**		
Total	**1,504,315**	**1,152,194**			**1,354,645**	**1,101,738**		

(Currency – In thousands of Turkish Lira (TL))

15. DEPOSITS (continued)

Other Money Market Deposits

	2012				2011			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Obligations under repurchase agreements:								
Due to customers	628	-	5.0	-	264	-	7.0	-
Due to banks & mutual funds	10,528	-	4.9 - 5.3	-	125,991	-	5.8 - 10.9	-
Total	**11,156**	**-**			**126,255**	**-**		

16. FUNDS BORROWED

	2012				2011			
	Amount		Effective interest rate (%)		Amount		Effective interest rate (%)	
	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency	Turkish Lira	Foreign Currency
Short term (*)								
Fixed interest	28,642	188,450	5.5-8.8	1.6-4.2	29,214	64,545	5.6-8.9	1.6-4.5
Floating interest (**)	-	18,811	-	1.9-3.1	-	72,474	-	2.0-4.2
Medium/long term (*)								
Fixed interest	5,301	4,063	7.8-9.3	2.7-4.3	7,598	63,158	7.3-9.1	2.9-4.8
Floating interest (**)	-	3,834	-	1.0-4.2	-	4,750	-	0.7-0.9
Total	**33,943**	**215,158**			**36,812**	**204,927**		

(*) The short term and medium/long term allocation of funds borrowed are based on the contractual payment period.

(**) Floating rate borrowings bear interest at rates fixed in advance for period of mostly 6 months.

Repayments of medium/long term borrowing are as follows:

	2012	2011
2012	-	64,697
2013	10,340	10,809
2014	2,858	-
Total	**13,198**	**75,506**

The Group did not have any defaults of principal, interest or redemption amounts or other breaches of loan covenants during 2012 (2011 – none).

Finance Leases:

As at 31 December 2012 and 2011, the Group has no finance lease obligations.

As at 31 December 2012 and 2011, the Group does not have any obligations from operational lease agreements.

(Currency – In thousands of Turkish Lira (TL))

17. OTHER LIABILITIES AND PROVISIONS

	2012	2011
Other liabilities		
Transfer orders	60,599	62,734
Taxes and funds payable	7,006	7,114
Payables for credit card settlements	6,411	1,045
Transitory payables	6,182	5,755
Blocked checks and other blockage items	1,550	1,674
Advances taken	179	152
Others	11,447	19,005
	93,374	**97,479**
Provisions		
Employee termination benefits	5,260	3,283
Employee vacation pay liability	3,358	2,889
Provision for non-cash loans not indemnified (*)	4,419	3,564
Provisions against lawsuits (**)	2,404	1,927
	15,441	**11,663**
Total	**108,815**	**109,142**

(*) As at 31 December 2012, the Group has provided TL 4,419 provision due to non-cash loans and irrevocable commitments that are not indemnified yet, however whose cash loan balances are impaired (2011 – TL 3,564).

(**) As at 31 December 2012, the Group has provided TL 2,404 provision due to certain lawsuits filed against the Bank (2011 – TL 1,927).

Employee Termination Benefits

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

	2012	2011
At 1 January	3,283	2,678
Interest cost	228	194
Effects of change in actuarial assumptions	2,560	1,026
Paid during the year	(1,400)	(991)
Current service cost	589	376
At 31 December	**5,260**	**3,283**

In accordance with existing social legislation, the Bank and its subsidiary incorporated in Turkey are required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL 3.03 and TL 2.73 at 31 December 2012 and 2011, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the consolidated financial statements as at 31 December 2012 and 2011, the Group reflected a liability 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 date of financial position.

(Currency – In thousands of Turkish Lira (TL))

17. OTHER LIABILITIES AND PROVISIONS

Employee Termination Benefits (continued)

The principal actuarial assumptions used at the dates of financial position are as follows:

	2012	**2011**
Discount rate	7.00	8.76
Expected rates of salary/limit increases	5.00	5.60

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

The movement in provision for employee vacation liability is as follows:

	2012	**2011**
At 1 January	2,889	2,724
Paid during the year	(404)	(353)
Current service cost	873	518
At 31 December	**3,358**	**2,889**

18. INCOME TAXES

General Information

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

In Turkey, corporate tax rate is 20%. Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the year-end date of financial position and taxes must be paid in one installment by the end of the fourth month. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts thus calculated and paid are offset against the final corporate tax liability for the year.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years.

The Bank and its subsidiary, Tekstil Yatırım, are subject to taxation in accordance with the tax procedures and the legislation effective in Turkey.

Major components of income tax expense for the years ended 31 December 2012 and 2011 are:

	2012	**2011**
Consolidated statement of comprehensive income		
Current income tax expense	5,094	9,366
Deferred income tax expense / (income)		
Relating to origination and reversal of temporary differences	1,942	(4,861)
Income tax expense reported in the consolidated statement of comprehensive income	**7,036**	**4,505**

(Currency – In thousands of Turkish Lira (TL))

18. INCOME TAXES (continued)

General Information (continued)

The reconciliation between tax expense and the product of accounting profit multiplied by the statutory income tax rate of the Bank for the years ended 31 December 2012 and 2011 is as follows:

	2012	2011
Profit before Income Tax	36,252	28,406
At Turkish statutory income tax rate of 20%	7,251	5,681
Tax exempt income	(161)	(1,861)
Non-deductible expenses	238	706
Others, net	(292)	(21)
Income tax expense	**7,036**	**4,505**

Deferred Income Tax

Deferred income tax at 31 December relates to the following:

	Consolidated Statement of Financial Position		Recognized under Statement of Comp. Income & Equity	
	2012	**2011**	**2012**	**2011**
Deferred income tax liabilities				
Valuation and depreciation differences of property and equipment	1,647	847	(800)	(236)
Valuation differences of securities	11	180	169	26
Valuation differences of derivatives	154	-	(154)	-
Gross deferred income tax liabilities	**1,812**	**1,027**	**(785)**	**(210)**
Deferred income tax assets				
Liability for employee termination benefits and unused vacation pay liability	1,723	1,235	488	237
Reserve for loan losses	4,348	4,069	279	1,593
Valuation differences of securities	23	78	(55)	78
Valuation differences of derivatives	-	3,192	(3,192)	2,695
Others	1,935	1,209	726	270
Gross deferred income tax assets	**8,029**	**9,783**	**(1,754)**	**4,873**
Deferred income taxes, net	**6,217**	**8,756**	**(2,539)**	**4,663**

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

	2012	2011
Deferred tax asset, net at 1 January	8,756	4,093
Deferred income tax recognized under profit or loss	(1,942)	4,861
Deferred income tax recognized under shareholders' equity (*)	(597)	(198)
Deferred tax asset, net at 31 December	**6,217**	**8,756**

(*) The change in deferred tax liability of TL 597, recognized under shareholders' equity, consists of TL 767 resulting from the revaluation surplus on buildings and TL (170) resulting from valuation differences of securities. Additionally, TL 4,283 income tax expense, resulting from gain on securities, is recognized under shareholders' equity.

(Currency – In thousands of Turkish Lira (TL))

18. INCOME TAXES (continued)

Current Income Tax Payable

Income tax payable at 31 December 2012 and 2011 is as follows:

	2012	2011
Current income tax charge	9,379	7,492
Prepaid income taxes	(6,060)	(3,166)
Income tax payable, net at 31 December	**3,319**	**4,326**

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

	2012		2011	
	Fair value assets (*)	Fair value liabilities	Fair value assets	Fair value liabilities
Derivatives held for trading				
Forward currency purchases and sales	407	316	867	3,923
Currency swap purchases and sales (*)	2,827	1,626	2,782	1,667
Options purchases and sales	541	547	20,772	21,523
Total	**3,775**	**2,489**	**24,421**	**27,113**

(*) Includes TL 746 of fair value asset resulted from precious metal swap sales transaction.

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

As at 31 December 2012 and 2011, the majority of outstanding transactions in derivative financial instruments were with the banks and financial institutions.

(Currency – In thousands of Turkish Lira (TL))

19. DERIVATIVES (continued)

The table below shows the notional amounts of derivative instruments analyzed by currency:

31 December 2012	**Turkish Lira**	**US Dollars**	**Euro**	**Others**	**Total**
Purchases					
Currency forwards	7,013	31,918	23,105	3,941	65,977
Currency swaps	9,747	317,388	253,984	29,784	610,903
Currency options	33,605	26,824	8,531	962	69,922
Sales					
Currency forwards	17,383	32,354	2,410	13,822	65,969
Currency swaps	231,048	292,578	11,994	42,022	577,642
Currency options	34,195	26,231	8,528	961	69,915
Other derivative transactions	358	-	-	32,047	32,405
Total of purchases	50,365	376,130	285,620	34,687	746,802
Total of sales	282,984	351,163	22,932	88,852	745,931
Net notional position	**(232,619)**	**24,967**	**262,688**	**(54,165)**	**871**

31 December 2011	**Turkish Lira**	**US Dollars**	**Euro**	**Others**	**Total**
Purchases					
Currency forwards	78,264	78,122	34,002	13,364	203,752
Currency swaps	85,976	237,657	164,766	3,873	492,272
Currency options	227,704	189,225	65,179	97,557	579,665
Sales					
Currency forwards	98,052	93,164	12,950	3,373	207,539
Currency swaps	205,094	228,913	19,674	36,637	490,318
Currency options	213,398	195,810	65,179	105,963	580,350
Total of purchases	391,944	505,004	263,947	114,794	1,275,689
Total of sales	516,544	517,887	97,803	145,973	1,278,207
Net notional position	**(124,600)**	**(12,883)**	**166,144**	**(31,179)**	**(2,518)**

The table below shows the the notional amounts of derivative instruments analyzed by the term to maturity:

31 December 2012	**Up to 1 month**	**1 to 3 months**	**3 to 6 months**	**6 to 12 months**	**Over 1 year**	**Total**
Currency forwards:						
Purchases	48,351	11,011	6,615	-	-	65,977
Sales	48,312	11,039	6,618	-	-	65,969
Currency swaps:						
Purchases	600,819	6,174	3,910	-	-	610,903
Sales	567,632	6,182	3,828	-	-	577,642
Currency options:						
Purchases	54,324	12,578	3,020	-	-	69,922
Sales	54,320	12,578	3,017	-	-	69,915
Other transactions:						
Sales	32,047	358	-	-	-	32,405
Total of purchases	703,494	29,763	13,545	-	-	746,802
Total of sales	702,311	30,157	13,463	-	-	745,931
Total of transactions	**1,405,805**	**59,920**	**27,008**	**-**	**-**	**1,492,733**

(Currency – In thousands of Turkish Lira (TL))

19. DERIVATIVES (continued)

31 December 2011	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
Currency forwards:						
Purchases	130,386	38,094	34,042	1,230	-	203,752
Sales	131,964	38,917	35,299	1,359	-	207,539
Currency swaps:						
Purchases	436,132	31,076	25,064	-	-	492,272
Sales	435,441	30,690	24,187	-	-	490,318
Currency options:						
Purchases	201,848	144,864	65,287	167,666	-	579,665
Sales	202,473	144,864	65,286	167,727	-	580,350
Total of purchases	768,366	214,034	124,393	168,896	-	1,275,689
Total of sales	769,878	214,471	124,772	169,086	-	1,278,207
Total of transactions	**1,538,244**	**428,505**	**249,165**	**337,982**	**-**	**2,553,896**

20. SHARE CAPITAL

	2012	2011
Number of common shares, TL 0.1 (in full TL), par value (Authorized and issued)	4,200,000,000	4,200,000,000

As at 31 December 2012 and 2011, the Bank's subscribed and issued share capital in historical terms are TL 420,000.

There is no share capital increase during the years ended 31 December 2012 and 2011.

As at 31 December 2012 and 2011, the composition of shareholders and their respective percentage of ownership in historical terms can be summarized as follows:

	2012		2011	
	Amount	**%**	**Amount**	**%**
GSD Holding A.Ş.	317,101	75.50	317,101	75.50
Publicly held (*)	102,899	24.50	102,899	24.50
Total	**420,000**	**100.00**	**420,000**	**100.00**

(*) TL 4,356 nominal shares (1.04%) are owned by other GSD group companies.

The 70% of share capital of the Parent Bank consist of Type A shares and the remaining consist of Type B shares. Three out of five members of the Board of Directors are appointed by Type A shareholders and the remaining two are appointed by Type B shareholders. There is no other privilege appointed. 65.5% of Type A shares and all of the Type B shares belong to GSD Holding A.Ş.

(Currency – In thousands of Turkish Lira (TL))

21. LEGAL RESERVES AND RETAINED EARNINGS

Movement in legal reserves and retained earnings is as follows:

	2012			2011		
	Legal Reserves	Retained Earnings	Total	Legal Reserves	Retained Earnings	Total
At 1 January	**5,871**	**72,245**	**78,116**	**4,970**	**49,245**	**54,215**
Net profit for the year	-	29,216	29,216	-	23,901	23,901
Transfer from retained earnings	1,280	(1,280)	-	901	(901)	-
At 31 December	**7,151**	**100,181**	**107,332**	**5,871**	**72,245**	**78,116**

Legal Reserves

The legal reserves consist of first and second legal reserves in accordance with the Turkish Commercial Code. The first legal reserve is appropriated out of the statutory profits at the rate of 5%, until the total reserve reaches a maximum of 20% of the entity's share capital. The second legal reserve is appropriated at the rate of 10% of all distributions in excess of 5% of the entity's share capital. The first and second legal reserves are not available for distribution unless they exceed 50% of the share capital, but may be used to absorb losses in the event that the general reserve is exhausted.

22. DIVIDENDS PAID AND PROPOSED

As at 31 December 2012 and 2011, the Group did not distribute any dividends to shareholders in respect of 2011 and 2010 profits.

23. EARNINGS PER SHARE

Basic earnings per share (EPS) amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the parent 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 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 without consideration through 31 December 2012.

There is no dilution of the shares as at 31 December 2012 and 2011.

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

	2012	2011
Net profit attributable to ordinary equity holders of the parents for basic earnings per share	0.70	0.57
Weighted average number of ordinary shares for basic earnings per share	4,200,000,000	4,200,000,000

(Currency – In thousands of Turkish Lira (TL))

24. 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 GSD Holding A.Ş. which owns 75.50% (2011 – 75.50%) of ordinary shares. For the purpose of these consolidated financial statements, shareholders, and GSD Group companies 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 course of conducting its banking business, the Group conducted various business transactions with related parties on commercial terms and at rates which approximate market rates.

Related Party		Cash Loans & Due From Banks	Non-cash Loans	Deposits Taken	Notional Amount of Derivative Transactions	Interest Income	Interest Expense	Other Operating Income	Other Operating Expense
Shareholders	2012	31	-	336	-	-	79	1	39
	2011	-	-	4	-	133	-	1	6
Others (*)	2012	15,534	698	43,321	-	3,931	3,201	134	1,506
	2011	62,454	4,536	46,693	-	5,089	5,618	163	870
Directors' interests	2012	156	-	12,615	7,195	-	782	-	5,717
	2011	86	-	14,007	7,463	-	823	1	5,030

(*) Others represent the shareholders and group companies of GSD Holding A.Ş. As at 31 December 2012, cash loans mainly include TL 286 (2011 – TL 45,468) loans granted to Tekstil Faktoring A.Ş., TL 15,139 (2011 – TL 16,607) due from bank balances from GSD Yatırım Bankası A.Ş. As at 31 December 2012, deposits taken mainly include TL 16,041 (2011 – TL 137) due to GSD Denizcilik Gayrimenkul İnşaat San. Tic. A.Ş., TL 9,675 (2011 – TL 11,460) due to GSD Dış Ticaret A.Ş.

Compensation of Key Management Personnel of the Group

For the year ended 31 December 2012, the executive and non-executive members of the Board of Directors and management received remuneration and fees totaling approximately TL 5,717 (2011 – TL 5,030) comprising salaries and other short-term benefits.

25. NET FOREGIN EXCHANGE GAIN/LOSS

	2012	2011
Net trading income/(loss) from derivative instruments	(83,558)	(8,051)
Foreign exchange gain/(loss), net	72,780	12,663
Total	**(10,778)**	**4,612**

The Group's derivative transactions include currency transactions.

(Currency – In thousands of Turkish Lira (TL))

26. FEE AND COMMISSION INCOME AND EXPENSE

	2012	2011
Fee and commission income		
Letters of guarantee	9,834	9,198
Letters of credit	1,193	1,654
Total	**11,027**	**10,852**
Fees and commission expense		
Corresponding bank fees	4,387	4,373
Total	**4,387**	**4,373**

27. INCOME FROM BANKING SERVICES

	2012	2011
Income from credit cards	3,227	3,002
Charges regarding account transactions	1,397	1,323
Charges regarding fund transfers	972	1,022
Income from insurance brokerage	864	906
Income from fee management	826	2,130
Income from check transactions	566	581
Others	5,657	6,187
Total	**13,509**	**15,151**

28. NET TRADING INCOME

	2012	2011
Commissions from capital market transactions	7,342	11,041
Gain from derecognition of available-for-sale securities	4,359	144
Other gain/(loss)	282	(502)
Total	**11,983**	**10,683**

29. OTHER INCOME

	2012	2011
Income from sale of property, equipment and assets held for sale	3,111	2,406
Collections from loans written off in prior years	1,388	2,186
Others	1,281	1,024
Total	**5,780**	**5,616**

(Currency – In thousands of Turkish Lira (TL))

30. SALARIES AND EMPLOYEE BENEFITS

	2012	2011
Personnel expenses		
Wages and salaries	53,599	48,335
Other fringe benefits	9,982	9,696
Employers' share of social security premiums	6,162	5,623
Provision for employee termination benefits and unused vacation pay liability	2,446	770
Total	**72,189**	**64,424**

31. GENERAL AND ADMINISTRATIVE EXPENSES

	2012	2011
Rent expenses	11,128	9,666
Communication expenses	3,597	2,863
Transportation expenses	2,064	2,102
Heating and lighting expenses	1,901	1,647
Cleaning and other residential expenses	1,628	1,499
Maintenance expense	1,586	1,531
Printing and stationary expenses	648	693
Advertising expenses	431	613
Insurance expenses	424	577
Computer expenses	414	429
Hospitality and representation expenses	361	331
Others	2,734	1,783
Total	**26,916**	**23,734**

32. OTHER EXPENSES

	2012	2011
Saving deposit insurance fund premium	2,284	2,279
Provision for litigations	525	1,302
Consultancy expenses	761	728
Loss on sale of fixed assets	22	189
Provision for impairment of buildings & assets held for sale	315	392
Translation loss transferred to profit/loss (*)	-	2,287
Others	1,347	1,904
Total	**5,254**	**9,081**

(*) This item represents the translation loss of the foreign subsidiary which was recorded under translation reserve account under equity as at 31 December 2010. The amount has been transferred to profit or loss in year 2011 since the subsidiary has been officially demised.

(Currency – In thousands of Turkish Lira (TL))

33. COMMITMENTS AND CONTINGENCIES

In the normal course of business activities, the Bank and its subsidiary undertake various commitments and incur certain contingent liabilities that are not presented in the financial statements including:

	2012	2011
Letters of guarantee	1,001,751	887,708
Letters of credit	202,019	303,685
Acceptance credits	1,359	7,041
Other guarantees	42,982	26,714
Total non-cash loans	**1,248,111**	**1,225,148**
Credit card limits	200,544	198,968
Other commitments	128,406	130,775
Total	**1,577,061**	**1,554,891**

Operating Lease Commitments - Group as Lessee

The Group has entered into commercial leases on branch premises. These leases have an average life of 1 to 5 years and with renewal option in the contracts. There are no restrictions placed upon the lessee by entering into these leases. There are no non-cancelable operating leases.

Litigation

(i) A customer has sued the Bank in year 1998 with the claim that his deposit money has been withdrawn from his account with forged documents. The amount is 1,229,213 Australian Dollars (equivalent to TL 2,271 as at 31 December 2012). The trial is still in progress and no provision has been provided.

(ii) In the normal course of its operations, the Group can face with legal disputes, claims and complaints. The necessary provision for those cases is provided based on management estimates and professional advice. As at 31 December 2012, TL 2,404 provision is provided against such litigations (2011 – TL 1,927).

Fiduciary Activities

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

The Group also manages 5 open-ended mutual funds (2011 – 4 open-ended mutual funds), which were established under the regulations of the Turkish Capital Market Board. In accordance with the funds' charters, the Group purchases and sells securities on behalf of funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations. Management fee and commission income received from mutual funds amounted to TL 826 for the year ended 31 December 2012 (2011 – TL 2,130).

As at 31 December 2012, the Group has investment custody accounts amounting to TL 149,011 (2011 – TL 159,056).

(Currency – In thousands of Turkish Lira (TL))

34. EVENTS AFTER THE REPORTING PERIOD

In accordance with Communiqué No. 2013/03 "Amendment on the Reserve Requirements Scale" published in the Official Gazette No. 28565 dated 20 February 2013, to be effective after 1 March 2013, new ratios for Turkish Lira and foreign currency liabilities required reserve ratios have been set and are stated below:

TL Liabilities	**Reserve Deposit Rates (%)**
Demand deposits, notice deposits, private current accounts and deposits/participation accounts up to 1 month and 3 months	11.5
Deposits/participation accounts up to 6 months maturity	8.5
Deposits/participation accounts up to 1 year maturity	6.5
TL other liabilities accounts up to 1 year maturity	11.5

Foreign Currency Liabilities	**Reserve Deposit Rates (%)**
Foreign currency demand deposits, notice deposits, foreign currency private current accounts and deposits/participation accounts up to 1 month, 3 months, 6 months and 1 year maturity	12.5
Other FC accounts up to 1 year maturity	12.5
Other FC accounts up to 3 years maturity	10.5