



**Türkiye Vakıflar Bankası Türk Anonim Ortaklığı
and Its Subsidiaries**

**Consolidated Financial Statements
As at 31 December 2013
With Independent Auditors' Report Thereon**

**Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik AŞ
24 March 2014**

This report includes "Independent Auditors' Report on Consolidated Financial Statements" comprising 1 page and; "Consolidated Financial Statements Together with their Explanatory Notes" comprising 77 pages.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

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Independent Auditors' Report

To the Board of Directors of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı

Introduction

We have audited the accompanying consolidated financial statements of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statements of profit or loss and comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 2013, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Istanbul, Turkey
24 March 2014

KPMG Akis Bağımsız Denetim ve Serbest A.Ş.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries
Consolidated Statement of Financial Position
At 31 December 2013
(Currency – Thousands of Turkish Lira (TL))

	Notes	31 December 2013	31 December 2012
ASSETS			
Cash and cash equivalents	7	7,597,991	6,694,856
Financial assets at fair value through profit or loss	8	663,232	296,532
Loans and advances to banks	10	165,504	315,025
Loans and advances to customers	11,12	89,175,046	69,826,883
Investment securities	13	22,155,267	18,878,282
Investment in equity-accounted investees	14	191,794	9,930
Property and equipment	15	1,018,847	885,067
Intangible assets	15	128,130	100,049
Current tax assets		6,014	418
Deferred tax assets	24	198,603	217,757
Other assets	16	18,006,405	10,727,536
Total assets		139,306,833	107,952,335
LIABILITIES AND EQUITY			
Trading liabilities	17	219,480	199,692
Deposits from banks	18	4,298,991	4,244,689
Deposits from customers	19	78,783,217	64,219,035
Obligations under repurchase agreements	9	14,580,345	8,490,891
Funds borrowed	20	12,306,664	8,132,349
Debt securities issued	21	6,820,735	2,372,748
Subordinated liabilities	22	1,964,663	1,630,188
Other liabilities and provisions	23	6,589,617	5,544,112
Current tax liabilities	24	61,399	172,808
Deferred tax liabilities	24	3,978	6,678
Total liabilities		125,629,089	95,013,190
Share capital	26	3,300,146	3,300,146
Share premium		724,316	724,320
Reserves	26	878,806	1,693,647
Retained earnings		8,366,271	6,756,136
Total equity attributable to equity holders of the Bank		13,269,539	12,474,249
Non-controlling interest	26	408,205	464,896
Total equity		13,677,744	12,939,145
Total liabilities and equity		139,306,833	107,952,335
Commitments and contingencies	31	37,966,608	28,608,002

The notes on pages 8 to 76 are an integral part of these consolidated financial statements.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the Year Ended 31 December 2013
(Currency – Thousands of Turkish Lira (TL))

	Notes	31 December 2013	31 December 2012
Interest income			
Interest on loans and receivables		7,683,665	7,095,923
Interest on securities		1,474,554	1,630,108
Interest on deposits at banks		60,814	64,204
Interest on money market placements		906	3,576
Other interest income		82,199	30,078
Total interest income		9,302,138	8,823,889
Interest expense			
Interest on deposits		(3,537,998)	(3,935,640)
Interest on money market deposits		(387,285)	(350,006)
Interest on funds borrowed		(175,752)	(178,898)
Interest expense on securities issued		(257,758)	(173,243)
Other interest expense		(169,076)	(96,348)
Total interest expense		(4,527,869)	(4,734,135)
Net interest income		4,774,269	4,089,754
Fee and commission income		948,333	683,183
Fee and commission expense		(319,380)	(265,569)
Net fee and commission income		628,953	417,614
Other operating income			
Net trading income	8	256,211	234,436
Net foreign exchange gains		1,620	113,111
Other income	28	1,049,046	900,214
Total other operating income		1,306,877	1,247,761
Other operating expense			
Salaries and employee benefits	29	(1,396,955)	(1,208,324)
Provision for possible loan losses, net of recoveries		(1,123,750)	(534,780)
Depreciation and amortisation	15	(128,323)	(130,005)
Taxes other than on income		(87,296)	(108,728)
Other expenses	30	(1,881,486)	(1,771,959)
Total other operating expenses		(4,617,810)	(3,753,796)
Share of profit of equity-accounted investees		28,299	854
Profit before income tax		2,120,588	2,002,187
Income tax expense	24	(376,585)	(408,085)
Profit for the year		1,744,003	1,594,102

The notes on pages 8 to 76 are an integral part of these consolidated financial statements.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries
Consolidated Statement of Profit or Loss and Other Comprehensive Income *(continued)*
For the Year Ended 31 December 2013
(Currency – Thousands of Turkish Lira (TL))

	Notes	31 December 2013	31 December 2012
Other comprehensive income			
Items that will never be classified to profit or loss:			
Remeasurement of employee termination benefits		(29,915)	-
Related tax		5,983	-
		(23,932)	-
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations		73,458	(6,641)
Net change in fair value of available for sale financial assets		(770,071)	1,037,620
Net change in fair value of available for sale financial assets transferred to profit or loss	26	(246,196)	(33,821)
Related tax	24	88,224	(82,572)
		(878,517)	914,586
Other comprehensive income for the year, net of income tax		(878,517)	914,586
Total comprehensive income for the year		865,486	2,508,688
Profit attributable to:			
Equity holders of the Bank		1,767,839	1,592,099
Non-controlling interest	26	(23,836)	2,003
Profit for the year		1,744,003	1,594,102
Total comprehensive income attributable to:			
Equity holders of the Bank		881,977	2,473,895
Non-controlling interest		(16,491)	34,793
Total comprehensive income for the year		865,486	2,508,688
Earnings per 100 shares on profit for the year (full TL)	25	0.6976	0.6376

The notes on pages 8 to 76 are an integral part of these consolidated financial statements.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries
Consolidated Statement of Changes in Equity
For the Year Ended 31 December 2013
(Currency – Thousands of Turkish Lira (TL))

	Attributable to equity holders of the Bank							Total	Non-controlling interest	Total equity
	Notes	Share capital	Share premium	Reserves			Retained earnings			
				Fair value reserves	Translation reserve	Legal reserves				
Balances at 1 January 2012		3,300,146	724,320	(13,977)	73,050	628,383	5,325,432	10,037,354	422,221	10,459,575
Total comprehensive income for the year										
Profit for the year		-	-	-	-	-	1,592,099	1,592,099	2,003	1,594,102
Other comprehensive income										
Reameasurements of defined benefit plans, net of tax		-	-	-	-	-	-	-	-	-
Foreign currency translation differences		-	-	-	(5,988)	-	-	(5,988)	(653)	(6,641)
Net changes in fair value of available for sale financial assets, net of tax	26	-	-	927,786	-	-	-	927,786	33,443	961,229
Net losses on available for sale financial assets transferred to profit or loss, net of tax	26	-	-	(40,002)	-	-	-	(40,002)	-	(40,002)
Total other comprehensive income		-	-	887,784	(5,988)	-	-	881,796	32,790	914,586
Total comprehensive income for the year		-	-	887,784	(5,988)	-	1,592,099	2,473,895	34,793	2,508,688
Transactions with owners, recorded directly in equity										
Transfer to reserves		-	-	-	-	124,395	(124,395)	-	-	-
Dividends paid		-	-	-	-	-	(37,000)	(37,000)	(507)	(37,507)
Other		-	-	-	-	-	-	-	8,389	8,389
Total contributions by and distributions to owners		-	-	-	-	124,395	(161,395)	(37,000)	7,882	(29,118)
Balances at 31 December 2012		3,300,146	724,320	873,807	67,062	752,778	6,756,136	12,474,249	464,896	12,939,145

The notes on pages 8 to 76 are an integral part of these consolidated financial statements.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries
Consolidated Statement of Changes in Equity (continued)
For the Year Ended 31 December 2013
(Currency – Thousands of Turkish Lira (TL))

	Attributable to equity holders of the Bank							Total	Non-controlling interest	Total equity
	Notes	Share capital	Share premium	Reserves			Retained earnings			
				Fair value reserves	Translation reserve	Legal reserves				
Balances at 1 January 2013		3,300,146	724,320	873,807	67,062	752,778	6,756,136	12,474,249	464,896	12,939,145
<i>Total comprehensive income for the year</i>										
Profit for the year		-	-	-	-	-	1,767,839	1,767,839	(23,836)	1,744,003
Other comprehensive income										
Reameasurements of defined benefit plans, net of tax		-	-	-	-	-	(23,932)	(23,932)	-	(23,932)
Foreign currency translation differences		-	-	-	66,113	-	-	66,113	7,345	73,458
Net changes in fair value of available for sale financial assets, net of tax	26	-	-	(789,430)	-	-	114,000	(675,430)	-	(675,430)
Net losses on available for sale financial assets transferred to profit or loss, net of tax	26	-	-	(252,613)	-	-	-	(252,613)	-	(252,613)
Total other comprehensive income		-	-	(1,042,043)	66,113	-	90,068	(885,862)	7,345	(878,517)
Total comprehensive income for the year		-	-	(1,042,043)	66,113	-	1,857,907	881,977	(16,491)	865,486
<i>Transactions with owners, recorded directly in equity</i>										
Transfer to reserves		-	(4)	-	-	147,776	(147,772)	-	-	-
Dividends paid		-	-	-	-	-	(100,000)	(100,000)	(292)	(100,292)
Other		-	-	-	-	13,313	-	13,313	(39,908)	(26,595)
Total contributions by and distributions to owners		-	(4)	-	-	161,089	(247,772)	(86,687)	(40,200)	(126,887)
Balances at 31 December 2013		3,300,146	724,316	(168,236)	133,175	913,867	8,366,271	13,269,539	408,205	13,677,744

The notes on pages 8 to 76 are an integral part of these consolidated financial statements.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries
Consolidated Statement of Cash Flows
For the Year Ended 31 December 2013
(Currency – Thousands of Turkish Lira (TL))

	Notes	31 December 2013	31 December 2012
Cash flows from operating activities:			
Profit for the year		1,744,003	1,594,102
<i>Adjustments for:</i>			
Income tax expense	24	376,585	408,085
Provision for possible loan losses, net of recoveries		1,123,750	534,780
Depreciation and amortization	15	128,323	130,005
Provision for short term employee benefits	29	259,492	190,437
Provision for retirement pay liability and unused vacations	29	27,951	60,548
Unearned premium reserve	28	54,860	71,972
Change in provision for outstanding claims	30	115,144	19,909
Long term insurance contracts	30	2,240	69,956
Other provision expenses	30	16,390	5,440
Net interest income		(4,774,269)	(4,089,754)
Share of profit of equity-accounted investees		(28,299)	(854)
Income from sale of fixed assets		(53,924)	(33,130)
Currency translation differences		73,458	(6,641)
Other non-cash adjustments		(1,258,722)	(309,058)
		(2,193,018)	(1,354,203)
Loans and advances to banks		149,521	(761,955)
Reserve deposits		(6,433,676)	(3,839,086)
Financial assets at fair value through profit or loss		(371,238)	85,323
Loans and advances to customers		(20,315,859)	(11,474,094)
Other assets		(841,052)	759,012
Deposits from banks		50,923	742,064
Deposits from customers		14,490,631	5,987,595
Obligation under repurchase agreements		6,077,359	2,510,758
Other liabilities and provisions		610,271	(501,229)
		(6,583,120)	(6,491,612)
Interest received		8,598,872	8,991,327
Interest paid		(4,034,511)	(4,721,638)
Taxes paid	24	(499,720)	(374,559)
Cash used in operating activities		(4,711,497)	(3,950,685)
Cash flows from investing activities:			
Dividends received		18,017	7,647
Acquisition of property and equipment	15	(251,706)	(131,331)
Proceeds from the sale of property and equipment		23,940	47,773
Acquisition of intangible assets	15	(42,270)	(31,962)
Acquisition of investment securities		(7,989,497)	(1,628,786)
Proceeds from sale of investment securities		4,693,315	2,847,557
Cash (used in)/provided by investing activities		(3,548,201)	1,110,898
Cash flows from financing activities:			
Proceeds from issue of subordinated liabilities		-	1,627,871
Proceeds from issue of debt securities		8,721,903	4,465,513
Repayments of debt securities		(4,318,460)	(2,620,966)
Proceeds from share capital increase		-	-
Repayments of funds borrowed		9,280,348	5,362,482
Proceeds from funds borrowed		(4,588,544)	(5,585,632)
Dividends paid		(100,292)	(37,507)
Cash provided by financing activities		8,994,955	3,211,761
Effect of foreign exchange rate fluctuations on cash and cash equivalents		(9,013)	(1,666)
Net increase/(decrease) in cash and cash equivalents		726,244	370,308
Cash and cash equivalents at the beginning of the year	7	5,376,750	5,006,441
Cash and cash equivalents at the end of the year	7	6,102,994	5,376,750

The notes on pages 8 to 76 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements:

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Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Financial Statements As at and For the Year Ended 31 December 2013

(Currency – Thousands of Turkish Lira (TL))

1. Overview of the Bank

(a) Brief History

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı (“the Bank”) was established under the authorization of special law numbered 6219, called “the Law of Türkiye Vakıflar Bankası Türk Anonim Ortaklığı”, on 11 January 1954 within the framework of the authority granted to the General Directorate of the Foundations. Operational activities of the Bank as stated at its Articles of Association are as follows:

- Lending loans by obtaining securities and real estate as collateral,
- Establishing or participating in all kinds of insurance corporations,
- Trading real estate,
- Providing all banking operations and services,
- Investing in various corporations handed over by the foundations and the General Directorate of the Foundations in accordance with conditions stipulated by agreements if signed.
- To render banking services to the foundations and carry out cashier transactions of the General Directorate of Foundations in compliance with the agreements signed by the General Directorate of the Foundations.

The Bank provides corporate, commercial and retail banking services through a network of 856 domestic branches and 3 foreign branches in New York, Bahrain and Iraq (31 December 2012: 741 domestic, 3 foreign, in total 744 branches). Additionally, the Bank has control over a bank located in Austria. As at 31 December 2013, the Bank has 14,943 (31 December 2012: 13,463) employees. The Bank’s head office is located at Sanayi Mahallesi, Eski Büyükdere Caddesi, Güler Sokak, No:51, Kağıthane- İstanbul.

(b) Ownership

The shareholder holding control over the Bank is the General Directorate of the Registered Foundations and Appendant Foundations represented by the General Directorate of the Foundations having 58.45% of the Bank’s outstanding shares. Another organization holding qualified share in the Bank is Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı, having 16.10% of outstanding shares of the Bank. The shares of the Bank are quoted to İstanbul Stock Exchange (BIST) and trade publicly.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Financial Statements
As at and For the Year Ended 31 December 2013
(Currency – Thousands of Turkish Lira (TL))

1. Overview of the Bank (continued)

(b) Ownership (continued)

As at 31 December 2013 and 2012, The Bank's paid-in capital amounted to TL 2,500,000, divided into 250.000.000.000 shares with a nominal value of 1 Kuruş each (1 TL equals to 100 Kuruş). As at 31 December 2013 and, the Bank's shareholders' structure was as disclosed below:

Shareholders	Number of the Shares (100 units)	Nominal Value of the Shares	Share Percentage (%)
Registered foundations represented by the General Directorate of the Foundations (Group A)	1.075.058.640	1,075,059	43.00
Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (Group C)	402.552.666	402,553	16.10
Appendant foundations (Group B)	386.224.784	386,225	15.45
Other appendant foundations (Group B)	3.097.162	3,097	0.13
Other registered foundations (Group B)	1.453.085	1,453	0.06
Other real persons and legal entities (Group C)	1.536.104	1,536	0.06
Publicly traded (Group D)	630.077.559	630,077	25.20
Total	2.500.000.000	2,500,000	100.00

2. Basis of preparation

(a) Statement of compliance

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

The accompanying consolidated financial statements were authorized fair issue by the Bank management on 24 March 2014.

(b) Basis of measurement

The accompanying consolidated financial statements are prepared in accordance with the historical cost basis as adjusted for the effects of inflation that lasted until 31 December 2005, except for the items presented on a fair value basis that are financial assets at fair value through profit or loss, derivative financial assets and liabilities held for trading purpose, available-for-sale financial assets and equity participations whose fair value can be reliably measured.

(c) Functional currency and presentation currency

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

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Financial Statements

As at and For the Year Ended 31 December 2013

(Currency – Thousands of Turkish Lira (TL))

2. Basis of preparation (continued)

(d) Accounting in hyperinflationary countries

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

(e) Use of estimates and judgements

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

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year and about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is disclosed below. These disclosures supplement the commentary on financial risk management.

Impairment

Assets accounted for at amortised cost are evaluated for impairment on a basis described in Note 3 (i) – *impairment of financial assets*.

The specific component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realisable value of any underlying collateral.

A collective component of the total allowance is established for:

- groups of homogeneous loans that are not considered individually significant; and
- groups of assets that are individually significant but that were not found to be individually impaired.

Collective allowance for groups of homogeneous loans is established using statistical methods such as roll rate methodology or for small portfolios with insufficient information, a formula approach based on historic loss rate experience. The roll rate methodology uses statistical analysis of historical data on delinquency to estimate the amount of loss. The estimate of loss arrived at on the basis of historical information is then reviewed to ensure that it appropriately reflects the economic conditions and product mix at the reporting date.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries

Notes to the Consolidated Financial Statements

As at and For the Year Ended 31 December 2013

(Currency – Thousands of Turkish Lira (TL))

2. Basis of preparation (continued)

(e) Use of estimates and judgements (continued)

Impairment (continued)

Collective allowance for groups of assets that are individually significant but that were not found to be individually impaired cover credit losses inherent in portfolios of loans and advances, and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances, and held-to-maturity investment securities, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions. The accuracy of the allowances depends on the estimates of future cash flows for specific counterparty allowances and the model assumptions and parameters used in determining collective allowances.

Investments in equity securities were evaluated for impairment on the basis described in Note 3 (i) – *impairment of financial assets*.

An assessment as to whether an investment in sovereign debt is impaired may be complex. In making such an assessment, the Group considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields;
- The rating agencies' assessments of the creditworthiness;
- The ability of the country to access the capital markets for new debt issuance;
- The probability of debt being restructured resulting in holders suffering losses through voluntary or mandatory debt forgiveness.

Fair value

The determination of fair value for financial assets and financial liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

The Group's accounting policy on fair value measurements is discussed in Note 3 (i) – *measurement*.

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

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly-i.e. as prices-or indirectly- i.e. derived from prices. This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

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2. Basis of preparation (continued)

(e) Use of estimates and judgements (continued)

Fair value (continued)

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

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other variables used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date, which would have been determined by market participants acting at arm's length.

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

The table analyses financial instruments measured at fair value at the end of the reporting year, by the level in the fair value hierarchy into which the fair value measurement is categorised as disclosed in Note 4 (d) – *fair value information*:

Financial asset and liability classification

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

- In classifying financial assets or liabilities as 'trading', the Group has determined that it meets the description of trading assets and liabilities set out in Note 3 (i).
- In designating financial assets or liabilities as at fair value through profit or loss, the Group has determined that it has met one of the criteria for this designation set out in Note 3 (i).
- In classifying financial assets as held-to-maturity, the Group has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by Note 3 (i).

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3. Significant accounting policies

Except as described below, the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities. The following changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2013.

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

Changes in accounting policies

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

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

(a) Subsidiaries

As a result of IFRS 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates its investees. IFRS 10 (2011) introduces a new control model that is applicable to all investees, by focusing on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. In particular, IFRS 10 (2011) requires the Group consolidate investees that it controls on the basis of de facto circumstances.

In accordance with the transitional provisions of IFRS 10 (2011), the Group reassessed the control conclusion for its investees at 1 January 2013. As a consequence, the change had no significant impact on the consolidated investees of the Group.

(b) Interest in other entities

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

(c) Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 Financial Instruments: Disclosures. Some of these disclosures are specifically required in financial statements for financial instruments; accordingly, the Group has included disclosures in this regard.

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement guidance prospectively, and has not provided any comparative information for new disclosures. Notwithstanding the above, the change had no significant impact on the measurements of the Group's assets and liabilities.

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3. Significant accounting policies (continued)

(d) Offsetting financial assets and financial liabilities

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

(e) Presentation of items of other comprehensive income

As a result of the amendments to IAS 1, the Group has modified the presentation of items of other comprehensive income in its condensed consolidated statement of profit or loss and other comprehensive income, to present separately items that would be reclassified to profit or loss in the future from those that would never be. Comparative information has also been re-presented accordingly.

The adoption of the amendment to IAS 1 has no impact on the recognised assets, liabilities and comprehensive income of the Group.

(f) Defined benefit plans

As a result of IAS 19 (2011), the Group started to recognize all actuarial gains and losses immediately in other comprehensive income in accordance with the change in IAS 19 (2011).

The Group recognized all actuarial gains and losses in profit or loss in previous years. Since the effect of this change has an immaterial effect on the previous year's consolidated financial statements, the Group did not restate its consolidated financial statements as at and for the year ended 31 December 2012.

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the Bank and the Subsidiaries are presented in Note 32.

Subsidiaries are the entities controlled by the Bank. The control exists if and only if; 1) when the Bank has the power over an affiliate which that power, directly or indirectly, give rights to govern the financial and operating policies of the entity so as to obtain benefits from its activities, 2) exposure, or rights, to variable returns from its involvement with the affiliate, 3) the ability to use its power over the affiliate to affect the amount of its returns.

The Bank reassess its control power over its subsidiaries if there is an indication that there are changes to any of the three elements of control. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Subsidiaries are 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.

Companies where the Bank exercises significant influence, but do not have operating and financial control are accounted for using the equity method.

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3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

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

Associates

Associates are those entities in which the Bank and its subsidiaries have significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Bank and its subsidiaries' share of the total recognised gains and losses of associates on an equity-accounting basis, from the date that significant influence commences until the date that significant influence ceases. When the Bank and its subsidiaries' share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Bank and its subsidiaries has incurred obligations in respect of the Associates are presented in note 32.

Transactions eliminated on consolidation

Inter-company balances and transactions, and any unrealized gains and losses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with associates are eliminated to the extent of the Bank and its subsidiaries' interest in the entity. Unrealized gains arising from transactions with associates are eliminated against the investment in the associate. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

Foreign currency transactions

Transactions are recorded in TL, which represents the Group's functional currency except for World Vakıf UBB Ltd and Vakıfbank International AG. Transactions denominated in foreign currencies are recorded at the exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are converted into TL at the exchange rates ruling at the reporting date with the resulting exchange differences recognised in the consolidated statement of comprehensive income as foreign exchange gains or losses.

Foreign operations

The functional currencies of the foreign subsidiaries, World Vakıf UBB Ltd. and Vakıfbank International AG, are US Dollar and Euro, respectively, and their financial statements are translated to the presentation currency, TL, for consolidation purposes, as summarized in the following paragraphs.

-The assets and liabilities of the foreign subsidiaries are translated at the exchange rate ruling at the reporting date.

-The income and expenses of foreign operations are translated to TL using average exchange rates.

-Foreign currency differences arising from the translation of the financial statements of the net investment in foreign operations into TL for consolidation purpose are recognised in other comprehensive income as the foreign currency translation reserve ("translation reserve"). Where a foreign operation is disposed of, in part or full, the relevant amount in the translation reserve is transferred to profit or loss as part of the profit or loss on disposal.

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3. Significant accounting policies (continued)

(c) Interest

Interest income and expense are recognised in the consolidated statement of profit or loss and other comprehensive income using the effective interest method, except for the interest income on overdue loans. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees and points paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of financial assets or liabilities.

Interest income and expense presented in the consolidated statement of profit or loss and other comprehensive income include:

- interest on financial assets and liabilities at amortised cost on an effective interest rate basis,
- interest on available-for-sale investment securities on an effective interest rate basis,
- interest earned till the disposal of financial assets at fair value through profit or loss.

(d) Fees and commission

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

Other fees and commission income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, commissions for insurance business (see also accounting policy (s)) are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognized on a straight-line basis over the commitment period.

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

(e) Net trading income

Net trading income includes gains and losses arising from disposals of financial assets at fair value through profit or loss, the disposal of available-for-sale financial assets, and gains and losses on derivative financial instruments held for trading purpose.

(f) Dividends

Dividend income is recognised when the right to receive the income is established. Dividends are reflected as a component of other operating income.

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3. Significant accounting policies (continued)

(g) Leases

The Group as the lessee

Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of income on a straight-line basis over the period of the lease.

Finance leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

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

Capitalised leased assets are depreciated over the estimated useful life of the asset.

The Group as the lessor

Operating leases

Assets leased out under operating leases are included in investment property in the consolidated financial statements. They are depreciated over their expected useful lives on a basis consistent with similar owned property and equipment. Rental income is recognised in the consolidated statement of income on a straight-line basis over the lease term.

Finance leases

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as a finance lease and a receivable equal to the net investment in the lease is recognised.

(h) Income taxes

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

Corporate tax

Turkey

Statutory income is subject to corporate tax at 20.0%. This rate is applied to accounting income modified for certain exemptions (like dividend income) and deductions (like investment incentives), and additions for certain non-tax deductible expenses and allowances for tax purposes. If there is no dividend distribution planned, no further tax charges are made.

Dividends paid to resident institutions and institutions working through local offices or representatives are not subject to withholding tax. Except for the dividend payments to those institutions, the withholding tax rate on the dividend payments is 15.0%. In applying the withholding tax rates on dividend payments to non-resident institutions and individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

Prepaid corporate taxes for every three months are computed and paid using the related period's tax rate. The payments can be deducted from the annual corporate tax calculated for the whole year earnings.

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(Currency – Thousands of Turkish Lira (TL))

3. Significant accounting policies (continued)

(h) Income taxes (continued)

Corporate tax (continued)

75% of gains on disposal of equity shares and immovables which were held for at least 2 years within the assets of acquired entities after acquisition are exempt from taxation if such gains are added to paid-in capital or kept under equity as restricted funds for at least 5 years.

In accordance with the tax legislation, tax losses can be carried forward to offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous periods.

There is no procedure for a final and definite agreement on tax assessments. Companies file their tax returns with their tax offices by the end of the 25th day of the fourth month following the close of the accounting period to which they relate. Tax returns are open for five years from the beginning of the year that follows the date of filing, during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings

Foreign subsidiary

The corporate tax rate for the Group's subsidiary in Austria has been determined as 25.0%. Prepaid corporate taxes for every three months are computed and paid using the related period's tax rate. Taxes which have been paid for previous periods can be deducted from corporate taxes computed on annual taxable income. According to the Double Taxation Treaty Agreement between Turkey and Austria, Turkish corporations in Austria possess the right to benefit from tax returns of 10.0% on interest earned from the investments and loans granted in Turkey.

Deferred taxes

Deferred tax assets and liabilities are recognised on all taxable temporary differences arising between the carrying values of assets and liabilities in the financial statements and their corresponding balances considered in the calculation of the tax base, except for the differences not deductible for tax purposes and initial recognition of assets and liabilities which affect neither accounting nor taxable profit.

The deferred tax assets and liabilities are reported as net in the consolidated financial statements only if the Group has a legal right to present the net value of current year tax assets and current year tax liabilities and the deferred tax assets and deferred tax liabilities are income taxes of the same taxable entity.

A deferred tax asset is recognised 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.

Transfer pricing regulations

In Turkey, the transfer pricing provisions have been stated under the Article 13 of the Corporate Tax Law with the heading of "disguised profit distribution via transfer pricing". The General Communiqué on disguised profit distribution via Transfer Pricing, dated 18 November 2007 sets details about implementation.

If a taxpayer enters into transactions regarding the sale or purchase of goods and services with related parties, where the prices are not set in accordance with the arm's length principle, then related profits are considered to be distributed in a disguised manner through transfer pricing. Such disguised profit distributions through transfer pricing are not accepted as tax deductible for corporate income tax purposes.

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3. Significant accounting policies (continued)

(h) Income taxes (continued)

Corporate tax (continued)

The files that should be sent to the tax authorities are prepared in accordance with the existing transfer pricing regulations. However such documents are open for five years from the beginning of the year that follows the date of filing, during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

Investment incentives

As per the provisional Article no. 69, effective from 1 January 2006, added to the Income Tax Law no. 193 by Law no. 5479 dated 8 April 2006 and published in Official Gazette no. 26133, tax payers could deduct investment incentives which were calculated according to the legislative provisions (including tax rate related provisions) in force on 31 December 2005, only from the taxable income for the years 2006, 2007, and 2008. The rights of tax payers who could not deduct investment incentives fully or partially due to insufficient taxable income during those years, were lost as at 31 December 2008.

In accordance with the decision taken by the Turkish Constitutional Court on 15 October 2009, the “2006, 2007 and 2008 ...” clause of the provisional Article no. 69 of the Income Tax Law mentioned above, is repealed and the time limitation for the use of the investment incentive is removed. The repeal related to the investment incentive was enacted and issued in the 8 January 2010 Official Gazette number 27456. Accordingly, the Group’s subsidiary operating in finance leasing business will be able to deduct its remaining investment incentives from taxable income in the future without any time limitation.

As per “Law regarding amendments to the Income Tax Law and Some Other Certain Laws and Decree Laws” accepted on 23 July 2010 at the Grand National Assembly of Turkey, the expression of “can be deducted from the earnings again in the context of this legislation (including the legislation regarding the tax rate) valid at this date” has been amended as “can be deducted from the earnings again in the context of this legislation (including the legislation regarding the tax rate as explained in the second clause of the temporary article no 61 of the Law) valid at this date” and the following expression of “Investment incentive amount used in determination of the tax base shall not exceed 25% of the associated taxable income. Tax is computed on the remaining income per the enacted tax rate” has been added. This Law has been published in the Official Gazette on 1 August 2010.

The clause “The amount which to be deducted as investment incentive to estimate tax base cannot exceed 25% of related income” which has been added to first clause of the temporary 69th article of Law No: 193 with the 5th article of Law No: 6009 on Amendments to Income Tax Law and Some Other Laws and Decree Laws has been abrogated with the 9 February 2012 dated decisions no: E.2010/93 and K.2012/20.

(i) Financial instruments

Recognition

The Group initially recognises loans and advances and deposits on the date which they are originated. Regular way purchases and sales of financial assets are recognised on the trade date on which the Group commits to purchase or sell the asset. All other financial assets and liabilities are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or 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.

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3. Significant accounting policies (continued)

(i) Financial instruments (continued)

Classification

Financial assets at fair value through profit or loss are trading financial assets acquired principally with the intention of disposal within a short period for the purpose of short-term profit making and *derivative financial instruments*. All trading derivatives in a net receivable position (positive fair value) are reported as financial assets at fair value through profit or loss. All trading derivatives in a net payable position (negative fair value) are reported as financial liabilities at fair value through profit or loss under other liabilities and provisions.

Held-to-maturity investment securities are financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity. These include certain debt securities.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Group does not intend to sell immediately or in the near term. They arise when the Group provides money, goods and services directly to a debtor with no intention of trading the receivable. Loans and receivables comprise loans and advances to banks and customers.

When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially a similar asset) at a fixed price on a future date (“reverse repo” or “stock borrowing”), the arrangement is accounted for as a loan and advance, and the underlying asset is not recognised in the Group’s financial statements. Such financial assets are presented separately on the face of consolidated statement of financial position.

Available-for-sale financial assets are the financial assets that are not held for trading purposes, loans and advances to banks and customers, or held to maturity. Available-for-sale financial assets mainly include certain debt securities issued by the Turkish Government.

Financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another entity.

See also *specific instruments* below.

Measurement

A financial asset or liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

Subsequent to initial recognition, all financial assets at fair value through profit or loss and all available-for-sale financial assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, loans and receivables and held-to-maturity investment securities are measured at amortised cost less impairment losses. The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

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3. Significant accounting policies (continued)

(i) Financial instruments (continued)

Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the reporting date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-related measures at the reporting date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the reporting date taking into account current market conditions and the current creditworthiness of the counterparties.

Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of financial instruments are recognised in the consolidated statement of comprehensive income as interest on securities.

Gains and losses arising from a change in the fair value of available-for-sale financial assets are recognised as other comprehensive income in the fair value reserve for available-for-sale financial assets. When the financial assets are sold, collected or otherwise disposed of, the related cumulative gain or loss recognised in the other comprehensive income is transferred to profit or loss. Interest earned whilst holding available-for-sale financial assets, held-to-maturity securities and financial assets at fair value through profit or loss is reported as interest income in the consolidated statement of comprehensive income.

Derecognition

A financial asset is derecognised when the control over the contractual rights that comprise that asset is lost. This occurs when the rights are realized, expire or are surrendered.

Available-for-sale financial assets and financial assets at fair value through profit or loss that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as at the date the Group commits to sell the assets. The specific identification method is used to determine the gain or loss on derecognition.

Held-to-maturity assets and loans and receivables are derecognised on the date they are transferred by the Group.

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

Offsetting

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

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

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3. Significant accounting policies (continued)

(i) Financial instruments (continued)

Specific instruments

Cash and cash equivalents: Cash and cash equivalents which is a base for preparation of consolidated statement of cash flows includes cash in TL, cash in FC (foreign currency), cheques, balances with the Central Bank, money market placements and loans and advances to banks whose original maturity is less than three months.

Investment securities: Investment securities are the financial assets that are classified as held-to-maturity financial assets and available-for-sale financial assets.

Loans and advances to banks and customers: Loans and advances provided by the Group to banks and customers are classified as loans and receivables, and reported net of allowances to reflect the estimated recoverable amounts.

Minimum lease receivables: Leases where the entire risks and rewards incident to ownership of an asset are substantially transferred to the lessee are classified as finance leases. A receivable at an amount equal to the present value of the lease payments, including any guaranteed residual value, is recognised. The difference between the gross receivable and the present value of the receivable is unearned finance income and is recognised over the term of the lease using the effective interest method. Minimum lease receivables are included in loans and advances to customers.

Factoring receivables: Factoring receivables are the loans and advances to customers arising from a financial transaction whereby the customers sell their accounts receivable (i.e., invoices) to the Group at a discount in exchange for immediate money with which to finance continued business. Factoring receivables are measured at amortised cost using the effective interest method after deducting unearned interest income and specific provision if impairment exists.

Deposits, funds borrowed, debt securities issued and subordinated liabilities: Deposits, funds borrowed, debt securities issued and subordinated liabilities are the Group's sources of debt funding. Deposits, funds borrowed, debt securities issued and subordinated liabilities are initially measured at fair value plus directly attributable transactions costs, and subsequently measured at their amortised cost using the effective interest method.

Impairment of financial assets

Assets carried at amortized cost

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

- (a) significant financial difficulty of the issuer or obligor;
- (b) a breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;
- (c) the Group is granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- (d) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;

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3. Significant accounting policies (continued)

(i) Financial instruments (continued)

Impairment of financial assets (continued)

- (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:
 - adverse changes in the payment status of borrowers; or
 - national or local economic conditions that correlate with defaults on the assets in the group.

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

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

The Group first assesses whether objective evidence 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.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

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 its recoverable amount.

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(Currency – Thousands of Turkish Lira (TL))

3. Significant accounting policies (continued)

(i) Financial instruments (continued)

Assets carried at fair value

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Available for sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the income statement.

(j) Repurchase transactions

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

(k) Property and equipment

The cost of the property and equipment purchased before 31 December 2005 is restated from the purchasing dates to 31 December 2005, the date the hyperinflationary period is considered to have ended. The inflation adjustment of the property and equipment that is subject to correction for the first time until 31 December 2005 has been calculated on the basis of cost obtained by deducting foreign exchange differences, financing expenses and revaluation increases, if any, from the historical cost. Property and equipment obtained after 31 December 2005 have been recorded at the cost.

Gains/losses arising from the disposal of the property and equipment are recognised in the consolidated statement of comprehensive income and calculated as the difference between the net book value and the net sales price. Maintenance and repair costs incurred for property and equipment are recorded as expense.

There are no changes in the accounting estimates that are expected to have an impact in the current or subsequent periods.

Property and equipment are depreciated based on the straight line method. Depreciation rates and estimated useful lives are:

Property and equipment	Estimated useful lives (years)	Depreciation Rates (%)
Buildings	50	2
Office equipment, furniture and fixture, and motor vehicles	5-10	10-20
Assets obtained through finance leases	4-5	20-25

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3. Significant accounting policies (continued)

(l) Investment property

Investment property is the property held either to earn rental income or for capital appreciation or for both. The Group holds investment property as a consequence of the ongoing operations of its consolidated real estate and insurance companies.

Investment properties are measured initially at cost including transaction costs.

Subsequent to initial recognition, the Group measured all investment property based on the cost model (i.e. at cost less accumulated depreciation and less any accumulated impairment losses). Estimated useful lives of investment properties and depreciation rates are 50 years and 2.0%, respectively.

(m) Intangible assets

The Group's intangible assets consist of software programmes. Intangible assets are recorded at cost.

The costs of the intangible assets purchased before 31 December 2005 are restated from the purchasing dates to 31 December 2005, the date the hyperinflationary period is considered to be ended. The intangible assets purchased after this date are recorded at their historical costs. The intangible assets are amortised based on straight line amortisation. The economic lives of intangible assets vary within the range of three and fifteen years and hereby the amortisation rates applied are within 33.33% and 6.66%.

(n) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists for a particular asset or a group of assets, then that asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the consolidated statement of comprehensive income.

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

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

(o) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

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3. Significant accounting policies (continued)

(p) Employee benefits

Pension and other post-retirement obligations

The Bank has a defined benefit plan for its employees as described below:

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee and his/her dependants will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

T. Vakıflar Bankası T.A.O. Memur ve Hizmetleri Emekli ve Sağlık Yardım Sandığı Vakfı (“the Fund”), is a separate legal entity and a foundation recognised by an official decree, providing pension and post-retirement medical benefits to all qualified Bank employees. The Fund has a defined benefit plan (“the Plan”) under which the Bank pays a mixture of fixed contributions, and additional contractual amounts. The Plan is funded through contributions of both by the employees and the employer as required by Social Security Law numbered 506 and these contributions are as follows:

	Employer %	Employee %
Pension contributions	11.0	9.0
Medical benefit contributions	8.0	5.0

This Plan is composed of the contractual benefits of the employees, which are subject to transfer to the Social Security Foundation (“SSF”) (“pension and medical benefits transferable to SSF”) and other excess social rights and payments provided in the existing trust indenture but not transferable to SSF and medical benefits provided by the Bank for its constructive obligation (“excess benefits”).

As a result of the changes in legislation described below, the Bank will transfer a substantial portion of its pension liability under the Plan to SSF. This transfer, which will be a settlement of the Bank’s obligation in respect of the pension and medical benefits transferable to SSF, will occur within three years from the enactment of the Law no. 5754: “Law regarding the changes in Social Insurance and General Health Insurance Law and other laws and regulations” (“New Law”) in May 2008.

Pension and medical benefits transferable to SSF:

As per the provisional Article no. 23 of the Turkish Banking Law no. 5411 (“Banking Law”) as approved by the Turkish Parliament on 19 October 2005, pension funds which are in essence similar to foundations are required to be transferred directly to SSF within a period of three years. In accordance with the Banking Law, the actuarial calculation of the liability, if any, on the transfer should be performed having regard to the methodology and parameters determined by the commission established by the Ministry of Labour and Social Security. Accordingly, the Bank calculated the pension benefits transferable to SSF in accordance with the Decree published by the Council of Ministers in the Official Gazette no. 26377 dated 15 December 2006 (“Decree”) for the purpose of determining the principles and procedures to be applied during the transfer of funds. However they said Article was vetoed by the President and at 2 November 2005 the President initiated a lawsuit before the Turkish Constitutional Court in order to rescind certain paragraphs of the provisional Article no. 23.

On 22 March 2007, the Turkish Constitutional Court reached a verdict with regards to the suspension of the execution of the first paragraph of provisional Article no. 23 of the Turkish Banking Law, which requires the transfer of pension funds to SSF, until the decision regarding the cancellation thereof is published in the Official Gazette. The Constitutional Court stated in its reasoned ruling published in the Official Gazette no. 26731, dated 15 December 2007 that the reason behind this cancellation was the possible loss of antecedent rights of the members of pension funds. Following the publication of the verdict, the Grand National Assembly of Republic of Turkey (“Turkish Parliament”) worked on the new legal arrangements by taking the cancellation reasoning into account.

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3. Significant accounting policies (continued)

(p) Employee benefits (continued)

Pension and other post-retirement obligations (continued)

On 17 April 2008, the New Law was accepted by the Turkish Parliament and was enacted on 8 May 2008 following its publication in the Official Gazette no. 26870. In accordance with the New Law, members of the funds established in accordance with the Social Security Law should be transferred to SSF within three years following its enactment date. The three year period has expired on 8 May 2011; however, it has been extended to 8 May 2013 with the decision of Council of Ministers published in Official Gazette dated 9 April 2011.

Excess benefit not transferable to SSF:

The other social rights and payments representing benefits in excess of social security limits are not subject to transfer to SSF.

Actuarial evaluation:

The technical financial statements of the Fund are audited by the certified actuary according to the “Actuaries Regulation” which is issued as per Article no. 21 of the Insurance Law no. 5684. As per the actuarial report dated February 2014, there is no technical or actual deficit determined which requires provision against.

Reserve for employee severance indemnity

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank and its subsidiaries arising from the retirement of the employees and calculated in accordance with the Turkish Labour Law. IFRSs require actuarial valuation methods to be developed to estimate the entity’s obligation under reserve for employee severance indemnity.

Other benefits to employees

The Group has provided for undiscounted employee benefits earned during the financial period as per services rendered in the accompanying consolidated financial statements.

(q) Items held in trust

Assets, other than cash deposits, held by the Group in fiduciary or agency capacities for their customers and government entities are not included in the accompanying consolidated statement of financial position, since such items are not the assets of the Group.

(r) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The financial guarantee contracts are subsequently carried at the higher of this amortised amount and the present value of any expected payment when a payment under the guarantee has become probable.

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3. Significant accounting policies (continued)

(s) Insurance business

Through its insurance subsidiaries, the Group enters into contracts that contain insurance risk. An insurance contract is a contract under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. Insurance risk covers all risks except for financial risks.

Investment contracts are those contracts which transfer financial risk without significant insurance risk. Financial risk is the risk of a possible future change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided, that it is not specific to a party to the contract, in the case of a non-financial variable.

Insurance and investment contracts issued/signed by the insurance subsidiaries are accounted for as follows:

Earned premiums: For short-term insurance contracts, premiums are recognized as revenue, net of premiums ceded to reinsurance firms, proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at reporting date is recognized as the reserve for unearned premiums that are calculated on a daily pro-rata basis. Premiums are shown before deduction of commissions given or received and deferred acquisitions costs, and are net of any taxes and duties levied on premiums.

For long-term insurance contracts, premiums are recognized as revenue when the premiums are due from the policyholders. Earned premiums, net of amounts ceded for reinsurance are recorded under operating income in the accompanying consolidated statement of comprehensive income.

Premium received for an investment contract, is not recognized as revenue. Premiums for such contracts are recognized directly as liabilities.

Reserve for unearned premiums: The reserve for unearned premiums represents the proportions of the premiums written in a period that relate to the period of risk subsequent to the reporting date, without deductions of commission or any other expense. Reserve for unearned premiums is calculated for all contracts except for the insurance contracts for which the Group provides actuarial provisions. The reserve for unearned premiums is also calculated for the annual premiums of the annually renewed long-term insurance contracts. The reserve for unearned premiums is presented under other liabilities and provisions in the accompanying consolidated statement of financial position.

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(Currency – Thousands of Turkish Lira (TL))

3. Significant accounting policies (continued)

(s) Insurance business (continued)

Reserve for outstanding claims: The reserve for outstanding claims represents the estimate of the total reported costs of notified claims on an individual case basis at the reporting date as well as the corresponding handling costs. A provision for claims incurred but not reported (“IBNR”) is also established as described below. Estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of IBNR claims at the reporting date. It can take a significant period of time before the ultimate claims cost can be established with certainty. The primary technique adopted by management in estimating the cost of IBNR claims, is that of using past claim settlement trends to predict future claims settlement trends (“Actuarial Chain Ladder Method”). At each reporting date, prior year claims estimates are reassessed for adequacy and changes are made to the provision. In addition to that, the Group also reassesses its notified claims provision at each reporting date on an ‘each claim-file’ basis. The reserve for outstanding claims is not discounted for the time value of money. The reserve for outstanding claims is presented under other liabilities and provisions in the accompanying consolidated statement of financial position.

Receivables from reinsurance activities: In the accompanying consolidated financial statements, receivables from reinsurance activities are presented under other assets. These receivables comprise the actual and estimated amounts, which, under contractual reinsurance agreements, are recoverable from reinsurers in respect of technical provisions. Reinsurance assets relating to technical provisions are established based on the terms of the reinsurance contracts and valued on the same basis as the related reinsured liabilities.

Subrogation, salvage and quasi income: The Group may account for income accrual for subrogation receivables without any voucher after the completion of the claim payments made to the insured. If the amount cannot be collected from the counterparty insurance company, the Group provides provision for uncollected amounts due for six months. If the counter party is not an insurance Company, the provision is provided after four months.

Long term insurance contracts: Long term insurance contracts are the provisions recorded against the liabilities of the Group to the beneficiaries of long-term life and individual accident policies based on actuarial assumptions.

Long term insurance contracts are calculated as the difference between the net present values of premiums written in return of the risk covered by the Group and the liabilities to policyholders for long-term insurance contracts based on the basis of actuarial mortality assumptions as approved by the Republic of Turkey Prime Ministry Undersecretariat of Treasury, which are applicable for all Turkish insurance companies. Long term insurance contracts are presented under other liabilities and provisions in the accompanying consolidated financial statements.

Investment contracts: Premiums received for such contracts are recognized directly as liabilities under investment contract liabilities. These liabilities are increased by bonus rate calculated by the Group and are decreased by policy administration fees, mortality and surrender charges and any withdrawals. Profit sharing reserves are the reserves provided against income obtained from asset backing investment contracts. These contracts entitle the beneficiaries of those contracts to a minimum guaranteed crediting rate per annum or, when higher, a bonus rate declared by the Group from the eligible surplus available to date.

Deferred acquisition cost and deferred commission income: Commissions and other acquisition costs given to the intermediaries that vary with and are related to securing new contracts and renewing existing insurance contracts are capitalized as deferred acquisition cost. Deferred acquisition costs are amortised on a straight-line basis over the life of the contracts. Deferred acquisition costs are presented under other assets in the accompanying consolidated financial statements.

Commission income obtained against premiums ceded to reinsurance firms are also deferred and amortised on a straight-line basis over the life of the contracts. Deferred commission income is presented under other liabilities and provisions in the accompanying consolidated financial statements.

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3. Significant accounting policies (continued)

(s) Insurance business (continued)

Liability adequacy test: At each reporting date, a liability adequacy test is performed, to ensure the adequacy of unearned premiums net of related deferred acquisition costs. In performing the test, current best estimates of future contractual cash flows, claims handling and policy administration expenses are taken into consideration. Any deficiency is immediately charged to the consolidated statement of comprehensive income.

If the result of the test is that a loss is required to be recognized, the deferred acquisition cost is reduced to the extent that expense loadings are considered not recoverable. Finally, if there is a still remaining amount of loss, this should be booked as an addition to the reserve for premium deficiency.

(t) Individual pension business

Individual pension system receivables presented under ‘other assets’ in the accompanying consolidated financial statements consists of ‘receivable from pension investment funds for investment management fees’, ‘entrance fee receivable from participants’ and ‘receivables from the clearing house on behalf of the participants’. Pension funds are the mutual funds that the individual pension companies invest in, by the contributions of the participants. Shares of the participants are kept at the clearing house on behalf of the participants.

Fees received from individual pension business consist of investment management fees, fees levied on contributions and entrance fees. Fees received from individual pension business are recognized in other income in the accompanying consolidated statement of comprehensive income.

Investment management fees are the fees charged to the pension funds against the hardware, software, personnel and accounting services provided to those pension funds.

Fees levied on contributions may be deducted over the participants’ contributions for the operational costs of the services rendered by the Group. The upper limit for such deductions is 2% over the contributions.

Entrance fees are received by the Group from participants during entry into the system and for the opening of a new individual pension account. In some pension plans, the Group receives some or all of the entrance fees when the participants leave the group before the completion of a 5-years ‘staying period’. If the participants keep their pension accounts in the Group more than 5 years, the entrance fee is not charged in these pension plans. In such cases, the Group does not recognise the entrance fee as revenue.

(u) Earnings per share

Basic earnings per share from continuing operations disclosed in the accompanying consolidated statement of comprehensive income is determined by dividing the net profit for the period by the weighted average number of shares outstanding during the period attributable to the shareholders of the Bank. There is no dilution of shares. In Turkey, companies can increase their share capital by making a pro-rata distribution of shares (“Bonus Shares”) to existing shareholders from retained earnings. For the purpose of earnings per share computations, such Bonus Shares issued are regarded as issued shares.

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3. Significant accounting policies (continued)

(v) Subsequent events

Post-balance sheet events that provide additional information about the Group's position at the reporting dates (adjusting events) are reflected in the consolidated financial statements. Post-balance sheet events that are not adjusting events are disclosed in the notes when material.

(w) Segment reporting

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

(x) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2013, and have not been applied in preparing these consolidated financial statements. None of these will have an effect on the consolidated financial information of the Group, with the exception of:

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

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

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

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

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3. Significant accounting policies (continued)

(x) New standards and interpretations not yet adopted (continued)

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

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

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

The mandatory effective date of IFRS 9 will be 1 January 2018.

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

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

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

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4. Financial risk management

(a) Introduction and overview

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

- credit risk,
- liquidity risk,
- market risk,
- operational risk,

Risk management framework

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

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

The risks are measured using internationally accepted methodologies, in compliance with local and international regulations, and the Bank's structure, policy and procedures. It is aimed to develop these methodologies to enable the Bank to manage the risks effectively.

In order to ensure the compliance with the rules as altered pursuant to Articles 23, and 29 to 31 of the Banking Law no. 5411 and Articles 36 to 69 of the Regulation on Internal Systems within the Banks, dated 28 June 2012 the Bank revised the written policies and implementation procedures regarding management of each risk encountered in its activities in September 2012.

Audit Committee: The Audit Committee consists of two members of the Board of Directors who do not have any executive functions. 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 Group, 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.

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4. Financial risk management (continued)

(b) Credit risk

Credit risk is defined as the probability of loss if the customer or counterparty fails to meet its obligations partially or completely on the terms set. Credit risk is considered in depth, covering the counterparty risks arising from not only from loans and debt securities but also credit risks originating from the transactions defined as loans in the Banking Law.

Management of credit risk

For credit risk management purposes the Risk Management Department is involved in

- the determination of credit risk policies in coordination with the Bank's other units,
- the determination and monitoring of the distribution of concentration limits with respect to sector, geography and credit type,
- contribution to the formation of rating and scoring systems,
- submitting to the Board of Directors and the senior management not only credit risk management reports about the credit portfolio's distribution (borrower, sector, geographical region), credit quality (impaired loans, credit risk ratings) and credit concentration, but also scenario analysis reports, stress tests and other analyses, and
- studies regarding the formation of advanced credit risk measurement approaches.

Exposure to credit risk

	Loans and advances to customers		Other assets expose to credit risk (inc. financial assets other than loans and advances to customers)	
	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Individually impaired	3,822,880	2,925,315	104,171	70,433
Specific impairment	(2,977,836)	(2,299,686)	(79,756)	(51,069)
Carrying amount	845,044	625,629	24,415	19,364
Past due but not impaired	330,438	195,990	18,573	19,662
Carrying amount	330,438	195,990	18,573	19,662
Neither past due nor impaired	88,136,055	68,878,575	54,984,651	43,604,933
Loans with renegotiated terms	617,028	565,451	-	-
Carrying amount	88,753,083	69,444,026	54,984,651	43,604,933
Collective impairment	(753,519)	(438,762)	-	-
Total carrying amount	89,175,046	69,826,883	55,027,639	43,643,959

As at 31 December 2013 and 2012, the Group has no allowance for loans and advances to banks and investment securities.

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4. Financial risk management (continued)

(b) Credit risk (continued)

Sectoral distribution of the performing loans and advances to customers

	31 December 2013		31 December 2012	
	Amount	%	Amount	%
Consumer loans	25,024,694	28.09	21,568,856	30.98
<i>Mortgage loans</i>	12,005,935	13.48	10,283,389	14.77
<i>General purpose loans</i>	8,870,034	9.96	5,397,477	7.75
<i>Overdraft checking accounts</i>	556,502	0.62	493,103	0.71
<i>Auto loans</i>	909,700	1.02	904,927	1.30
<i>Other consumer loans</i>	2,682,523	3.01	4,489,960	6.45
Manufacturing	12,425,384	13.95	11,027,111	15.83
Wholesale and retail trade	14,252,643	16.00	9,639,881	13.84
Transportation and telecommunication	8,643,600	9.70	4,726,689	6.79
Construction	8,881,832	9.97	4,908,520	7.05
Credit cards	3,837,261	4.31	3,214,767	4.62
Hotel, food and beverage services	1,700,277	1.91	1,395,202	2.00
Financial institutions	1,528,288	1.72	1,449,100	2.08
Agriculture and stockbreeding	2,020,682	2.27	1,584,045	2.27
Health and social services	814,538	0.91	524,067	0.75
Others	9,954,322	11.17	9,601,778	13.79
Total performing loans and advances to customers	89,083,521	100.00	69,640,016	100.00

Impaired loans and receivables

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

Past due but not impaired loans

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

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to temporary deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider.

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

The consolidated subsidiaries write off a loan/security balance (and any related allowances for impairment losses) when it is concluded that the loans/securities are uncollectible after all the necessary legal procedures has been completed, and the final loss has been determined. This conclusion is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

The Bank has not adopted a policy to write-off loans.

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4. Financial risk management (continued)

(b) Credit risk (continued)

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

31 December 2013	Loans and advances to customers		Other assets	
	Gross	Net	Gross ^(*)	Net ^(*)
Grade 3 : Individually Impaired	412,200	329,125	-	-
Grade 4 : Individually Impaired	661,776	226,825	8,150	7,775
Grade 5 : Individually Impaired	2,748,904	289,094	96,021	16,640
Total	3,822,880	845,044	104,171	24,415

31 December 2012	Loans and advances to customers		Other assets	
	Gross	Net	Gross ^(*)	Net ^(*)
Grade 3 : Individually Impaired	440,592	329,238	-	-
Grade 4 : Individually Impaired	543,663	130,309	2,915	2,736
Grade 5 : Individually Impaired	1,941,060	166,082	67,518	16,628
Total	2,925,315	625,629	70,433	19,364

^(*) Impaired insurance receivables are included in “Grade 4” and “Grade 5” in above table.

Collateral policy

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

The breakdown of performing cash loans and advances to customers and non-cash loans (financial guarantee contracts) by type of collateral are as follows:

Cash loans	31 December 2013	31 December 2012
Secured loans:	63,878,349	50,544,148
Secured by mortgages	18,194,791	19,751,313
Secured by cash collateral	384,250	587,270
Guarantees issued by financial institutions	194,111	273,443
Secured by government institutions or government securities	228,099	172,801
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	44,877,098	29,759,321
Unsecured loans	25,205,172	19,095,868
Total performing loans and advances to customers	89,083,521	69,640,016

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4. Financial risk management (continued)

(b) Credit risk (continued)

Non-cash loans (financial guarantee contracts)	31 December 2013	31 December 2012
Secured loans:	10,500,592	7,669,050
Secured by mortgages	679,079	669,759
Secured by cash collateral	85,773	123,436
Guarantees issued by financial institutions	5,408	7,901
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	9,730,332	6,867,954
Unsecured loans	12,906,114	9,581,987
Total non-cash loans	23,406,706	17,251,037

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

	31 December 2013	31 December 2012
Cash collateral ^(*)	-	-
Mortgages	934,918	758,704
Promissory notes ^(*)	728	172
Others ^(**)	2,887,234	2,166,439
Total	3,822,880	2,925,315

^(*)As a Bank policy, it is aimed to utilize cash collateral or liquidate promissory notes for an impaired loan which was previously collateralized by cash collateral or promissory notes to cover the credit risk. Hence, the cash collateral and promissory notes amounts are shown as very small / zero in the table.

^(**)Sureties obtained for impaired loans are presented in this row to the extent that the amount does not exceed the amount of impaired loans

Sectoral and geographical concentration of impaired loans

The Bank and its subsidiaries monitor concentrations of credit risk by sector and by geographic location. An analysis of concentrations of non-performing loans, finance lease and factoring receivables are shown below:

Sectoral concentration	31 December 2013		31 December 2012	
	Amount	%	Amount	%
Consumer loans	629,003	16.45	479,133	16.38
Construction	311,126	8.14	290,347	9.93
Textile	220,488	5.77	291,437	9.96
Food	370,206	9.68	171,287	5.86
Service sector	26,435	0.69	112,017	3.83
Agriculture and stockbreeding	101,728	2.66	37,563	1.28
Metal and metal products	119,769	3.13	34,150	1.17
Durable consumer goods	73,056	1.91	10,027	0.34
Financial institutions	15,325	0.40	8,827	0.30
Others	1,955,744	51.17	1,490,527	50.95
Total non-performing loans and advances to customers	3,822,880	100.00	2,925,315	100.00

Geographical concentration	31 December 2013		31 December 2012	
	Amount	%	Amount	%
Turkey	3,800,133	99.40	2,912,302	99.56
Austria	22,622	0.60	12,908	0.44
Other	125	-	105	-
Total non-performing loans and advances to customers	3,822,880	100.00	2,925,315	100.00

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4. Financial risk management (continued)

Offsetting financial assets and financial liabilities

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

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

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

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

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

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

		Related amounts not offset in the statement of financial position					
	<u>Types of financial assets</u>	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments (including non-cash collateral)	Cash collateral received	Net amount
31 December 2013	Derivatives - trading assets	438,395	-	438,395	-	438,395	-
31 December 2012	Derivatives - trading assets	89,425	-	89,425	-	89,425	-

		Related amounts not offset in the statement of financial position					
	<u>Types of financial liabilities</u>	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments (including non-cash collateral)	Cash collateral received	Net amount
31 December 2013	Derivatives - trading liabilities	219,480	-	219,480	-	219,480	-
31 December 2012	Derivatives - trading liabilities	199,692	-	199,692	-	199,692	-

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(c) Liquidity risk

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

Management of liquidity risk

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

The Treasury Department of the Bank receives information from other business departments regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. The Treasury Department then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, short-term loans and advances to domestic and foreign banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business departments and subsidiaries are met through short-term loans from the Treasury Department to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Asset-Liability Committee ("ALCO"). Daily reports cover the liquidity position of both the Bank and foreign branches. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

Exposure to liquidity risk

The calculation method used to measure the Bank's compliance with the liquidity limit is set by BRSA. Currently, this calculation is performed on a bank-only basis (not including consolidated subsidiaries).

The Bank's banking subsidiary in the Austria is subject to a similar liquidity measurement, however the Austrian National Bank does not impose limits, but monitors the bank's overall liquidity position to ensure there is no significant deterioration in the liquidity of banks operating in Austria.

Maturity analysis of monetary assets and liabilities according to their remaining maturities:

	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
31 December 2013							
Cash and cash equivalents	6,971,553	430,043	194,325	2,070	-	-	7,597,991
Financial assets at fair value through profit or loss	20,635	132,269	115,723	178,757	204,534	11,314	663,232
Loans and advances to banks	-	5,091	31,349	90,594	38,470	-	165,504
Loans and advances to customers	91,525	9,004,692	3,455,871	15,464,531	41,580,546	19,577,881	89,175,046
Investment securities	114,183	1,211,856	1,148,855	2,766,032	7,568,749	9,345,592	22,155,267
Other assets	15,069,594	985,777	63,385	58,484	89,830	461,885	16,728,955
Total assets	22,267,490	11,769,728	5,009,508	18,560,468	49,482,129	29,396,672	136,485,995
Trading liabilities	-	90,300	19,257	20,364	32,747	56,812	219,480
Deposits from banks	25,537	3,300,869	869,432	103,153	-	-	4,298,991
Deposits from customers	13,879,873	38,643,943	19,294,057	6,040,869	898,335	26,140	78,783,217
Obligations under repurchase agreements	-	12,528,096	237,295	1,005,685	809,269	-	14,580,345
Funds borrowed	-	347,503	767,445	6,298,088	2,480,525	2,413,103	12,306,664
Debt securities issued	-	401,592	1,427,439	1,726,684	3,265,020	-	6,820,735
Subordinated liabilities	-	-	-	111,788	388,211	1,464,664	1,964,663
Current tax liabilities	-	-	61,399	-	-	-	61,399
Other liabilities and provisions	170,497	2,871,412	57,078	-	-	-	3,098,987
Total liabilities	14,075,907	58,183,715	22,733,402	15,306,631	7,874,107	3,960,719	122,134,481
Net	8,191,583	(46,413,987)	(17,723,894)	3,253,837	41,608,022	25,435,953	14,351,514

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4. Financial risk management (continued)

(c) Liquidity risk (continued)

31 December 2012	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Cash and cash equivalents	5,653,586	851,426	189,844	-	-	-	6,694,856
Financial assets at fair value through profit or loss	6,808	29,164	16,151	45,125	187,733	11,551	296,532
Loans and advances to banks	-	86,901	104,866	16,363	106,895	-	315,025
Loans and advances to customers	186,867	5,941,765	675,850	13,265,951	32,562,738	17,193,712	69,826,883
Investment securities	294,687	76,242	192,791	2,546,067	10,702,607	5,065,888	18,878,282
Other assets	8,188,266	723,854	48,685	64,182	42,082	461,971	9,529,040
Total assets	14,330,214	7,709,352	1,228,187	15,937,688	43,602,055	22,733,122	105,540,618
Trading Liabilities	-	4,094	4,657	3,710	111,521	75,710	199,692
Deposits from banks	15,263	2,984,819	880,011	364,596	-	-	4,244,689
Deposits from customers	11,046,766	33,882,327	15,092,672	3,634,010	550,332	12,928	64,219,035
Obligations under repurchase agreements	-	6,577,257	233,673	1,679,961	-	-	8,490,891
Funds borrowed	-	288,231	378,116	4,256,242	2,050,628	1,159,132	8,132,349
Debt securities issued	-	608,070	161,954	711,587	891,137	-	2,372,748
Subordinated liabilities	-	-	-	179,837	544,512	905,839	1,630,188
Current tax liabilities	-	-	-	172,808	-	-	172,808
Other liabilities and provisions	659,607	2,428,673	81,950	67,658	-	-	3,237,888
Total liabilities	11,721,636	46,773,471	16,833,033	11,070,409	4,148,130	2,153,609	92,700,288
Net	2,608,578	(39,064,119)	(15,604,846)	4,867,279	39,453,925	20,579,513	12,840,330

Residual contractual maturities of the financial liabilities

31 December 2013	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Trading Liabilities	219,480	219,480	-	93,751	17,423	47,110	32,757	28,439
Deposits from banks	4,298,991	4,309,731	25,537	3,302,429	876,802	104,963	-	-
Deposits from customers	78,783,217	79,333,404	13,879,873	38,743,408	19,480,650	6,216,492	981,498	31,483
Obligations under repurchase agreements	14,580,345	14,606,825	-	12,531,308	237,537	1,011,566	826,414	-
Funds borrowed	12,306,664	13,016,125	-	362,435	823,117	6,414,978	2,592,692	2,822,903
Debt securities issued	6,820,735	7,572,794	-	400,920	1,436,319	1,775,217	3,960,338	-
Subordinated liabilities	1,964,663	2,966,040	-	-	-	115,560	462,240	2,388,240
Other financial liabilities	3,098,987	3,098,987	170,497	2,871,412	57,078	-	-	-
Total	122,073,082	125,123,386	14,075,907	58,305,663	22,928,926	15,685,886	8,855,939	5,271,065
Non-Cash Loans	23,406,706	23,406,706	264,268	370,339	13,670,929	5,657,505	2,788,347	655,318

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
Trading liabilities	199,692	199,692	-	4,094	4,657	3,710	111,521	75,710
Deposits from banks	4,244,689	4,255,512	15,263	2,986,648	886,791	366,810	-	-
Deposits from customers	64,219,035	64,723,597	11,046,766	34,067,776	15,251,225	3,730,974	611,031	15,825
Obligations under repurchase agreements	8,490,891	8,514,667	-	6,581,679	234,179	1,698,809	-	-
Funds borrowed	8,132,349	8,556,970	-	288,586	381,136	4,313,607	2,230,115	1,343,526
Debt securities issued	2,372,748	2,623,486	-	610,517	164,324	728,357	1,120,288	-
Subordinated liabilities	1,630,188	3,583,391	-	-	-	195,458	781,831	2,606,102
Other financial liabilities	3,237,888	3,237,888	659,607	2,428,673	81,950	67,658	-	-
Total	92,527,480	95,695,203	11,721,636	46,967,973	17,004,262	11,105,383	4,854,786	4,041,163
Non-Cash Loans	17,251,037	17,251,037	7,631,920	1,136,877	1,567,553	4,183,700	2,047,339	683,648

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

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4. Financial risk management (continued)

(d) Market risk

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

Management of market risk

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

Exposure to market risk – trading portfolios

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

Value at Risk ("VaR") is also used to measure and control market risk exposure within the Bank's trading portfolios. The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used is based on historical simulation and Monte Carlo simulation.

Average, highest and lowest values of consolidated market risks for the years ended 31 December 2013 and 2012, calculated as per the statutory consolidated financial statements prepared for BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 28337 dated 28 June 2012, are as follows:

	31 December 2013			31 December 2012		
	Average	Highest	Lowest	Average	Highest	Lowest
Interest rate risk	14,166	18,276	9,186	89,337	134,503	20,406
Common share risk	2,832	4,374	2,147	1,989	2,512	1,284
Currency risk	43,364	60,952	31,803	43,272	56,347	36,504
Option risk	232	929	-	266	669	-
Counter party risk	4,396	7,439	-	2,637	2,808	2,465
Total value at risk	812,380	1,149,630	539,200	1,702,270	2,171,075	810,137

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4. Financial risk management (continued)

(d) Market risk (continued)

Exposure to interest rate risk – non-trading portfolios

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

	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Carrying amount
31 December 2013							
Cash and cash equivalents	430,043	194,325	2,070	-	-	6,971,553	7,597,991
Loans and advances to banks	5,091	31,349	90,594	38,470	-	-	165,504
Loans and advances to customers	26,273,959	19,401,166	17,126,529	16,667,918	9,613,949	91,525	89,175,046
Investment securities	6,267,212	2,868,011	4,704,066	3,791,872	4,409,923	114,183	22,155,267
Other assets	13,463	85	10,506	74,246	425	16,630,230	16,728,955
Total assets	32,989,768	22,494,936	21,933,765	20,572,506	14,024,297	23,807,491	135,822,763
Trading liabilities	100,329	19,257	20,364	22,718	56,812	-	219,480
Deposits from banks	3,300,869	869,432	103,153	-	-	25,537	4,298,991
Deposits from customers	38,643,943	19,294,057	6,040,869	898,335	26,140	13,879,873	78,783,217
Obligations under repurchase agreements	12,528,096	237,295	1,005,685	809,269	-	-	14,580,345
Funds borrowed	703,291	4,553,844	5,636,666	691,124	721,739	-	12,306,664
Debt securities issued	401,592	1,427,439	1,726,684	3,265,020	-	-	6,820,735
Subordinated liabilities	-	-	111,788	388,211	1,464,664	-	1,964,663
Current tax liabilities	-	-	-	-	-	61,399	61,399
Other liabilities and provisions	-	-	-	-	-	3,327,500	3,327,500
Total liabilities	55,678,120	26,401,324	14,645,209	6,074,677	2,269,355	17,294,309	122,362,994
Net	(22,688,352)	(3,906,388)	7,288,556	14,497,829	11,754,942	6,513,182	13,459,769

	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Carrying amount
31 December 2012							
Cash and cash equivalents	1,760,471	189,844	-	-	-	4,744,541	6,694,856
Loans and advances to banks	98,687	183,937	32,401	-	-	-	315,025
Loans and advances to customers	21,851,130	15,155,122	12,147,486	13,407,598	7,078,680	186,867	69,826,883
Investment securities	5,133,788	2,874,820	2,541,226	4,343,318	3,690,443	294,687	18,878,282
Other assets	6,646	517	7,773	31,963	511	9,481,630	9,529,040
Total assets	28,850,722	18,404,240	14,728,886	17,782,879	10,769,634	14,707,725	105,244,086
Trading liabilities	13,010	4,633	3,847	102,492	75,710	-	199,692
Deposits from banks	2,984,819	880,011	364,596	-	-	15,263	4,244,689
Deposits from customers	33,882,327	15,092,672	3,634,010	550,332	12,928	11,046,766	64,219,035
Obligations under repurchase agreements	6,577,257	233,673	1,679,961	-	-	-	8,490,891
Funds borrowed	1,987,727	3,629,530	2,295,949	121,510	97,633	-	8,132,349
Debt securities issued	608,070	161,954	711,587	891,137	-	-	2,372,748
Subordinated liabilities	-	-	179,837	544,512	905,839	-	1,630,188
Current tax liabilities	-	-	-	-	-	172,808	172,808
Other liabilities and provisions	-	-	-	-	-	3,237,888	3,237,888
Total liabilities	46,053,210	20,002,473	8,869,787	2,209,983	1,092,110	14,472,725	92,700,288
Net	(17,202,488)	(1,598,233)	5,859,099	15,572,896	9,677,524	235,000	12,543,798

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4. Financial risk management (continued)

(d) Market risk (continued)

The following table indicates the effective interest rates applied to monetary financial instruments by major currencies for the years ended 31 December 2013 and 2012:

31 December 2013	US Dollar %	EUR %	TL%
Cash and cash equivalents	0.35	0.10	9.43
Financial assets at fair value through profit or loss	7.21	5.26	10.11
Loans and advances to banks	3.24	3.43	9.04
Loans and advances to customers	6.88	5.17	13.49
Investment securities	7.05	5.77	11.11
Deposits from banks	0.71	1.00	8.21
Deposits from customers	2.51	2.71	8.16
Obligations under repurchase agreements	1.19	0.37	7.62
Debt securities issued	4.06	1.53	8.74
Subordinated liabilities	6.00	-	-
Funds borrowed	1.66	1.19	8.26

31 December 2012	US Dollar %	EUR %	TL %
Cash and cash equivalents	2.38	1.62	10.38
Financial assets at fair value through profit or loss	1.84	7.54	6.32
Loans and advances to banks	2.82	2.34	10.21
Loans and advances to customers	5.46	4.67	15.36
Investment securities	7.01	5.29	8.25
Deposits from banks	1.40	1.79	6.69
Deposits from customers	3.15	3.26	8.79
Obligations under repurchase agreements	1.31	0.43	5.57
Debt securities issued	5.75	-	7.64
Subordinated liabilities	5.78	-	-
Funds borrowed	2.09	1.45	9.37

Interest rate sensitivity

Interest rate sensitivity of profit or loss is the effect of the assumed changes in interest rates on the fair values of financial assets at fair value through profit or loss held as at 31 December 2013 and effect on net interest income of floating rate non-trading financial assets and financial liabilities held at 31 December 2013. Interest rate sensitivity of the other comprehensive income is calculated by considering the effects of the assumed changes in interest rates on the fair values of fixed rate available-for-sale financial assets as at 31 December 2013.

As at 31 December 2013, 100 bp increase in interest rates would have an effect on the total comprehensive income, without tax effects, of the Group amounting to TL 214,103 (31 December 2012: TL 303,931), whereas 100 bp decrease in interest rates would have an effect on the total comprehensive income, without tax effects, of the Group amounting to TL (322,543) (31 December 2012: TL (299,148)).

This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

This analysis don't include the effect of deposits of which interest sensitivity is very short-term mainly based on re-pricing dates as seen on the table above.

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4. Financial risk management (continued)

(d) Market risk (continued)

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of the changes in the levels of equity indices and the value of individual stocks.

The effect on other comprehensive income of the Group as a result of changes in the fair value of equity instruments held as available-for-sale financial assets and equity participations at 31 December 2013 and 2012 due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Change in index	31 December 2013	31 December 2012
BIST – 100	10%	17,602	8,252

Currency risk

The Group is exposed to currency risk through transactions in foreign currencies and through its investment in foreign operations.

Management of currency risk

Risk policy of the Group is based on keeping the transactions within defined limits and keeping the currency position well-balanced. The Group has established a foreign currency risk management policy that enables the Group to take a position between lower and upper limits which are determined, taking total equity of the Group into account.

For the purposes of the evaluation of the table below, the figures represent the TL equivalent of the related foreign currencies.

31 December 2013	US Dollar	EUR	Other currencies	Total
Cash and cash equivalents	4,442,695	568,242	94,394	5,105,331
Financial assets at fair value through profit or loss	31,441	6,266	-	37,707
Loans and advances to banks	186,388	-	-	186,388
Loans and advances to customers	16,720,867	7,365,082	58,146	24,144,095
Investment securities	2,829,761	1,039,732	-	3,869,493
Other assets	6,750,549	5,737,741	3,732,047	16,220,337
Total foreign currency denominated monetary assets	30,961,701	14,717,063	3,884,587	49,563,351
Deposits from banks	2,168,866	482,090	2,370	2,653,326
Deposits from customers	9,438,650	8,724,869	1,128,265	19,291,784
Obligations under repurchase agreements	5,882,383	580,039	-	6,462,422
Funds borrowed	6,581,078	5,273,698	14,142	11,868,918
Debt securities issued	4,471,861	29,720	28,065	4,529,646
Subordinated liabilities	1,964,663	-	-	1,964,663
Other liabilities	1,128,134	264,765	20,590	1,413,489
Total foreign currency denominated monetary liabilities	31,635,635	15,355,181	1,193,432	48,184,248
Net statement of financial position	(673,934)	(638,118)	2,691,155	1,379,103
Net off balance sheet position	736,064	506,406	(2,701,033)	(1,458,563)
Net long/(short) position	62,130	(131,712)	(9,878)	(79,460)

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4. Financial risk management (continued)

(d) Market risk (continued)

31 December 2012	US Dollar	EUR	Other currencies	Total
Cash and cash equivalents	3,184,333	471,793	109,122	3,765,248
Financial assets at fair value through profit or loss	54,074	5,218	-	59,292
Loans and advances to banks	22,507	-	-	22,507
Loans and advances to customers	12,237,440	6,857,782	56,031	19,151,253
Investment securities	3,106,598	850,148	-	3,956,746
Other assets	3,210,649	2,832,014	2,404,798	8,447,461
Total foreign currency denominated monetary assets	21,815,601	11,016,955	2,569,951	35,402,507
Deposits from banks	1,453,817	515,449	2,177	1,971,443
Deposits from customers	9,159,675	5,556,450	859,834	15,575,959
Obligations under repurchase agreements	5,838,713	545,611	-	6,384,324
Funds borrowed	3,990,731	3,813,045	25,820	7,829,596
Debt securities issued	891,137	-	-	891,137
Subordinated liabilities	1,630,188	-	-	1,630,188
Other liabilities	823,844	147,125	10,644	981,613
Total foreign currency denominated monetary liabilities	23,788,105	10,577,680	898,475	35,264,260
Net statement of financial position	(1,972,504)	439,275	1,671,476	138,247
Net off balance sheet position	2,344,524	(435,772)	(1,676,440)	232,312
Net long/(short) position	372,020	3,503	(4,964)	370,559

The figures of the foreign subsidiary of the Group are presented in the table above with respect to its functional currency.

Exposure to currency risk

10 percent devaluation of the TL against the following currencies as at and for the years ended 31 December 2013 and 2012 would affect consolidated total comprehensive income and profit or loss (without tax effects) by the amounts shown below.

	31 December 2013		31 December 2012	
	Profit or loss	Total comprehensive income	Profit or loss	Total comprehensive income
US Dollar	6,213	6,213	37,202	37,202
EUR	(13,171)	(13,171)	350	350
Other currencies	(988)	(988)	(496)	(496)
Total, net	(7,946)	(7,946)	37,056	37,056

10 percent revaluation of the TL against the following currencies as at and for years ended 31 December 2013 and 2012 would affect consolidated total comprehensive income and profit or loss (without tax effects) by the amounts shown below.

	31 December 2013		31 December 2012	
	Profit or loss	Total comprehensive income	Profit or loss	Total comprehensive income
US Dollar	(6,213)	(6,213)	(37,202)	(37,202)
EUR	13,171	13,171	(350)	(350)
Other currencies	988	988	496	496
Total, net	7,946	7,946	(37,056)	(37,056)

This analysis assumes that all other variables, in particular interest rates, remain constant.

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4. Financial risk management (continued)

(d) Market risk (continued)

Fair value information

The estimated fair values of financial instruments have been determined using available market information by the Group, and where it exists, appropriate valuation methodologies. However, judgement is necessary to interpret market data to determine the estimated fair value. Turkey has shown signs of an emerging market and has experienced a significant decline in the volume of activity in its financial market. While management has used available market information in estimating the fair values of financial instruments, the market information may not be fully reflective of the value that could be realized in the current circumstances.

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

Fair value of performing loans and advances to customers is TL 88,890,117 (31 December 2012: TL 69,710,816), whereas the carrying amount is TL 89,340,550 (31 December 2012: TL 69,640,016) in the accompanying consolidated statement of financial position as at 31 December 2013.

Fair value of held-to-maturity investment securities is TL 5,303,328 (31 December 2012: TL 4,476,252), whereas the carrying amount is TL 5,413,171 (31 December 2012: TL 4,261,060) in the accompanying consolidated statement of financial position as at 31 December 2013.

The classification of fair value measurements of financial assets and liabilities measured at fair value is as follows:

31 December 2013	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
Debt securities	146,661	69,686	-	216,347
Derivative financial assets held for trading purpose	-	438,395	-	438,395
Investment funds	5,467	-	-	5,467
Equity securities	2,996	-	27	3,023
Investment securities – available-for-sale				
Debt securities	14,981,029	1,666,128	-	16,647,157
Equity securities	3,158	-	54,823 ^(*)	57,981
Total financial assets	15,139,311	2,174,209	54,850	17,368,370
Financial liabilities held for trading purpose				
Derivative financial liabilities held for trading purpose	-	(219,480)	-	(219,480)
Total financial liabilities	-	(219,480)	-	(219,480)

^(*) These amounts consist of fair value of the affiliates and subsidiaries determined by independent valuation companies.

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4. Financial risk management (continued)

(d) Market risk (continued)

31 December 2012	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
Debt securities	148,155	52,144	-	200,299
Derivative financial assets held for trading purpose	-	89,425	-	89,425
Investment funds	4,099	-	-	4,099
Equity securities	2,682	-	27	2,709
Investment securities – available-for-sale				
Debt securities	14,320,383	2,152	-	14,322,535
Equity securities	212,936	-	42,649 ^(*)	255,585
Total financial assets	14,688,255	143,721	42,676	14,874,652
Financial liabilities held for trading purpose				
Derivative financial liabilities held for trading purpose	-	(199,692)	-	(199,692)
Total financial liabilities	-	(199,692)	-	(199,692)

(*) These amounts consist of fair value of the affiliates and subsidiaries determined by independent valuation companies.

The reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy as follows:

	31 December 2013	31 December 2012
Balance at the beginning of the year	42,676	30,851
Total gains or losses for the year recognized in profit or loss	-	-
Total gains or losses for the year recognized in other comprehensive income	12,174	11,825
Balance at the end of the year	54,850	42,676

(e) Operational risk

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

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

The data of operational losses may be 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 third section of "Regulation Regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" that is "Computation of Value of Operational Risk" published in 28 June 2012 dated Official Gazette no. 28337. The operational risk which the Group is exposed to is calculated according to the "Basic Indicator Method" hence by multiplying the average of the 15% of last three years' actual gross income with 12.5, in line with the effective legislation practices in the country. As at 31 December 2013, value of operational risk amounted to TL 9,561,025 (31 December 2012: TL 8,564,338).

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4. Financial risk management (continued)

(f) Capital management – regulatory capital

BRSA, the regulatory body of the banking industry sets and monitors capital requirements for the Bank. In implementing current capital requirements, BRSA requires the banks to maintain a prescribed ratio of a minimum of 8% of total capital to total risk-weighted assets. BRSA regulation requires the calculation of the capital adequacy ratio based on the consolidated financial statements of the Bank and its financial subsidiaries.

The Bank and its financial subsidiaries' consolidated regulatory capital is analyzed into two tiers:

- Tier 1 capital, is composed of share capital, legal, statutory, other profit and extraordinary reserves, retained earnings, translation reserve and non-controlling interests after deduction of goodwill, prepaid expenses and other certain costs.
- Tier 2 capital, is composed of the total amount of general provisions for loans, restricted funds, fair value reserves of available-for-sale financial assets and equity investments, subordinated loans received and free reserves set aside for contingencies.

Banking operations are categorized as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and commitment and contingencies exposures. Operational risk capital requirements and market risk capital requirements as at 31 December 2013 and 2012 are calculated using the Basic Indicator Approach and included in the capital adequacy calculations.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

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

The Bank's regulatory capital position on a consolidated basis at 31 December 2013 and 2012 is as follows:

	31 December 2013	31 December 2012
Tier 1 capital	12,470,606	10,953,352
Tier 2 capital	2,994,771	2,936,593
Deductions from capital	(265,583)	(294,438)
Total regulatory capital	15,199,794	13,595,507
Risk-weighted assets	104,755,400	77,990,988
Value at market risk	737,263	810,138
Operational risk	9,561,025	8,564,338
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	13.21	15.56
Total tier 1 capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	10.84	12.54

5 Insurance risk management

The risk under any insurance contract is the possibility that the insured event occurs and the amount of the resulting claim is uncertain. By the very nature of an insurance contract, the risk is random and therefore unpredictable.

For a portfolio of insurance contracts where the theory of the probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claim and benefit payments exceed carrying amount of the insured liabilities. These could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

5 Insurance risk management (continued)

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is likely to be affected across the board by a change in any subset of portfolio.

The Group has developed its life and non-life insurance underwriting strategies to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

Pricing policies

The pricing policies and principles of the Group are as follows:

- i) While determining risk premiums, the amount of expected losses are considered and premium limits are determined accordingly.
- ii) During the study of pricing activities as a part of developing a new product, working of relevant units together within the Group is maintained by considering the needs of the customers and competition in the market.
- iii) It is aimed to achieve profitability in product basis and providing continuity.

Results of the pricing studies are compared with the prices of the competitors and international pricing cases.

Management of risks

The Group manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing, product design and management of reinsurance.

The Group underwriting strategy seeks diversity to ensure a balanced portfolio and is based on a large portfolio of similar risks over a number of years which reduces the variability of the outcome. All non-life contracts are annual in nature and the underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal.

Concentration of insurance risk

A key aspect of the insurance risk faced by the Group is the extent of concentration of insurance risk, which determines the extent to which a particular event or series of events could impact significantly upon the Group's liabilities. Such concentrations may arise from a single insurance contract or through a number of related contracts where significant liabilities could arise. An important aspect of the concentration of insurance risk is that it could arise from the accumulation of risks within a number of different insurance classes.

Concentrations of risk can arise in low frequency, high-severity events such as natural disasters; in situations where the Group is exposed to unexpected changes in trends, for example, unexpected changes in human mortality or in policyholder behavior; or where significant litigation or legislative risks could cause a large single loss, or have a pervasive effect on many contracts.

Within non-life insurance, the management believes that the Group has no significant concentration of exposure to any group of policyholders measured by social, professional, age or similar criteria.

The greatest likelihood of significant losses to the Group arises from catastrophe events, such as flood, damage, storm or earthquake damage. The techniques and assumptions that the Group uses to calculate these risks are as follows:

- Measurement of geographical accumulations.
- Assessment of probable maximum losses.
- Excess of loss reinsurance.

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5 Insurance risk management (continued)

Reinsurance

The Group reinsures a portion of the risks it underwrites in order to control its exposure to losses and protect capital resources.

Reinsurance companies, providing reinsurance protection against life insurance and other additional risks are the most important service providers for the insurance subsidiaries of the Group. The decisive criteria for the relationship with reinsurers are as follows:

- i) Financial strength,
- ii) Long-term relationship approach,
- iii) Competitive prices
- iv) Capacity provided for facultative and un-proportional (catastrophic) reinsurance contracts.
- v) Opportunities and information provided in risk assessment process, product development, trainings, information about new developments in the sector and etc.

Performance of the reinsurance companies in treaty agreements is evaluated for each year by considering the payment performance of the reinsurers for the claims paid and other due payables to the insurance subsidiaries of the Group. Performance of the reinsurance companies in facultative agreements is evaluated by considering capacity provided to the insurance subsidiaries of the Group, speed in operational reinsurance transactions, and technical and market information provided to the insurance subsidiaries of the Group. In cases where the performance of the reinsurer is not seen as adequate, the insurance subsidiaries of the Group will decide to contract with alternative reinsurance companies.

6. Segment reporting

Operating segments

The Group has six reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately based on the Group's management and internal reporting structure. For each of the strategic business units, the Board of Directors reviews internal management reports on at least a quarterly basis. The following summary describes the operations in each of the Group's reportable segments:

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

Corporate and commercial banking: Includes loans, deposits and other transactions and balances with corporate customers.

Investment banking: Includes the Group's trading and corporate finance activities.

This segment undertakes the Group's funding and centralized risk management activities through borrowings, issues of debt securities and investing in liquid assets such as short-term placements and corporate and government debt securities.

Insurance: Includes the Group's insurance business.

Leasing: Includes the Group's finance lease business.

Factoring: Includes the Group's factoring business.

Others: Includes combined information about operating segments that do not meet the quantitative thresholds.

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

Measurement of segment assets and liabilities and operating segment results is based on the accounting policies set out in the accounting policy notes.

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6. Segment reporting (continued)

Information about operating segments

31 December 2013	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Operating profit	1,165,607	494,283	626,880	(226,889)	2,059,881	(8,110)	(392)	(6,599)	14,395	2,059,175	61,413	2,120,588
Profit before income tax	1,165,607	494,283	626,880	(226,889)	2,059,881	(8,110)	(392)	(6,599)	14,395	2,059,175	61,413	2,120,588
Income tax expense	(210,064)	(89,390)	(113,370)	40,900	(371,924)	(2,656)	1,799	(2,363)	(1,441)	(376,585)	-	(376,585)
Profit for the year	955,543	404,893	513,510	(185,989)	1,687,957	(10,766)	1,407	(8,962)	12,954	1,682,590	61,413	1,744,003

31 December 2013	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Segment assets	30,419,715	57,705,309	28,820,060	19,418,704	136,363,788	2,028,716	1,063,300	171,851	789,003	140,416,658	(1,073,106)	139,343,552
Investments in associates and subsidiaries	-	-	1,522,511	-	1,522,511	213,972	3,356	2,322	19,805	1,761,966	(1,570,172)	191,794
Total assets	30,419,715	57,705,309	30,342,571	19,418,704	137,886,299	2,242,688	1,066,656	174,173	808,808	142,178,624	(2,643,278)	139,535,346
Segment liabilities	31,327,338	52,348,818	35,072,042	5,074,284	123,822,482	1,849,237	957,482	94,565	247,362	126,971,128	(1,113,526)	125,857,602
Equity including non-controlling interest	-	-	-	14,063,817	14,063,817	393,451	109,174	79,608	561,446	15,207,496	(1,529,752)	13,677,744
Total liabilities and equity	31,327,338	52,348,818	35,072,042	19,138,101	137,886,299	2,242,688	1,066,656	174,173	808,808	142,178,624	(2,643,278)	139,535,346

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6. Segment reporting (continued)

Information about operating segments (continued)

31 December 2012	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Operating profit	883,455	768,638	739,235	(359,241)	2,032,087	9,986	7,666	12,853	17,693	2,080,285	(78,098)	2,002,187
Profit before income tax	883,455	768,638	739,235	(359,241)	2,032,087	9,986	7,666	12,853	17,693	2,080,285	(78,098)	2,002,187
Income tax expense	(173,209)	(150,698)	(144,933)	70,432	(398,408)	(4,204)	(2,264)	(2,572)	(637)	(408,085)	-	(408,085)
Profit for the year	710,246	617,940	594,302	(288,809)	1,633,679	5,782	5,402	10,281	17,056	1,672,200	(78,098)	1,594,102

31 December 2012	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Segment assets	24,277,414	52,957,260	24,386,603	3,567,971	105,189,248	1,776,722	802,987	272,501	683,489	108,724,947	(782,542)	107,942,405
Investments in associates and subsidiaries	-	-	1,037,789	-	1,037,789	173,855	3,922	2,322	27,928	1,245,816	(1,235,886)	9,930
Total assets	24,277,414	52,957,260	25,424,392	3,567,971	106,227,037	1,950,577	806,909	274,823	711,417	109,970,763	(2,018,428)	107,952,335
Segment liabilities	43,653,412	25,091,124	20,287,320	4,089,562	93,121,418	1,559,612	699,509	186,305	205,951	95,772,795	(759,605)	95,013,190
Equity including non-controlling interest	-	-	-	13,105,619	13,105,619	390,965	107,400	88,518	505,466	14,197,968	(1,258,823)	12,939,145
Total liabilities and equity	43,653,412	25,091,124	20,287,320	17,195,181	106,227,037	1,950,577	806,909	274,823	711,417	109,970,763	(2,018,428)	107,952,335

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7. Cash and cash equivalents

As at 31 December 2013 and 2012, cash and cash equivalents presented in the consolidated statement of financial position and cash flows are as follows:

	31 December 2013	31 December 2012
Cash on hand	1,156,445	983,077
Balances with the CBT excluding reserve deposits	3,250,746	3,214,344
Receivables from repurchase agreements (<i>Note 9</i>)	1,000	3,701
Loans and advances to banks with original maturity less than three months	2,904,662	2,464,934
Others	285,117	28,800
Total cash and cash equivalents in the consolidated statement of financial position	7,597,970	6,694,856
Accruals on cash and cash equivalents	(1,321)	(3,460)
Blocked bank deposits	(1,493,655)	(1,314,646)
Total cash and cash equivalents in the consolidated statement of cash flows	6,102,994	5,376,750

As at 31 December 2013, TL 1,284,000 (31 December 2012: TL 1,068,000) of TL 1,493,655 blocked bank deposits (31 December 2012: TL 1,314,646) comprises the additional reserve requirements of Central Bank of Turkey (“CBT”) as explained below. Remaining TL 209,655 blocked bank deposits consists of TL 52,207 held against the “Diversified Payment Rights” securitizations and TL 157,448 held against insurance liabilities of the Group in favour of the Turkish Treasury.

The Bank and CBT had disagreement about the reserve requirements deposited at CBT regarding the syndication loans obtained by foreign branches of the Bank. Subsequent to the decision, CBT required the Bank to provide reserve requirement for loans obtained by foreign branches, the Bank filed a claim in Ankara 15th Administrative Court for the suspension of execution and cancellation of the decision. As at 15 June 2011, the court decided on refusal of the claim with the right to appeal on State Council. CBT requested the Bank to provide additional reserves amounting to USD 384 million in average for 3.5 years period with the 4 May 2011 dated communiqué. In this context, the Bank has begun to provide additional reserve requirements at 27 May 2011.

8. Financial assets at fair value through profit or loss

As at 31 December 2013 and 2012, financial assets at fair value through profit or loss are as follows:

	31 December 2013		31 December 2012	
	Face Value	Carrying Value	Face Value	Carrying Value
<i>Debt instruments held at fair value:</i>				
Government bonds in TL	107,712	113,306	109,999	121,695
Asset-backed securities	64,671	66,975	29,900	24,994
Eurobonds issued by the Turkish Government	13,400	15,740	11,267	14,820
Corporate bonds in TL	5,956	6,397	4,700	5,255
Bonds issued by banks	14,180	13,929	28,971	33,535
		216,347		200,299
<i>Equity and other non-fixed income instruments:</i>				
Derivative financial instruments held for trading purposes		438,395		89,425
Investment funds		5,467		4,099
Equity shares		3,023		2,709
		446,885		96,233
Total financial assets at fair value through profit or loss		663,232		296,532

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8. Financial assets at fair value through profit or loss (continued)

Gains and losses arising on derivative financial instruments held for trading purposes and income from sale of debt instruments held at fair value are reflected in net trading income. As at and for the year ended 31 December 2013, net income from trading of financial assets (including investment securities) amounting to TL 98,823 (31 December 2012: TL 55,386) is included in “trading income, (net)”

The following table summarizes securities that were deposited as collateral with respect to various banking transactions:

	31 December 2013		31 December 2012	
	Face Value	Carrying Value	Face Value	Carrying Value
Deposited at Turkish Treasury for insurance operations	112,551	113,551	55,409	63,141
Deposited at Istanbul Stock Exchange for repurchase transactions	-	-	991	983
Deposited at Istanbul Stock Exchange for Capital Markets Board certifications	100	100	100	98
		113,651		64,222

Derivative financial instruments held for trading purposes

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

The table below shows the contractual amounts of derivative instruments analyzed by the term to maturity. The contractual 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 contractual amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

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8. Financial assets at fair value through profit or loss (continued)

Derivative financial instruments held for trading purposes (continued)

The fair value of derivative financial instruments is calculated by using forward exchange rates at the reporting date. 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. The maturity analyses of the gross nominal value of derivatives are presented below:

	31 December 2013					Total
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	
Currency swaps:						
Purchases	6,739,736	2,249,378	536,697	302,156	-	9,827,967
Sales	4,001,814	1,007,236	535,505	288,346	-	5,832,901
Currency forwards:						
Purchases	224,713	147,847	294,718	-	-	667,278
Sales	224,586	147,772	294,499	-	-	666,857
Cross currency interest rate swaps:						
Purchases	-	353,100	107,000	936,756	-	1,396,856
Sales	-	250,998	77,250	792,895	-	1,121,143
Interest rate swaps:						
Purchases	-	-	-	1,044,578	1,027,996	2,072,574
Sales	-	-	-	1,044,578	1,027,996	2,072,574
Currency options:						
Purchases	32,224	14,002	124,204	-	-	170,430
Sales	32,224	14,002	124,204	-	-	170,430
Other:						
Purchases	1,000	-	-	-	6	1,006
Sales	2,724,841	1,237,736	-	-	-	3,962,577
Total of purchases	6,997,673	2,764,327	1,062,619	2,283,490	1,028,002	14,136,111
Total of sales	6,983,465	2,657,744	1,031,458	2,125,819	1,027,996	13,826,482
Total of derivatives	13,981,138	5,422,071	2,094,077	4,409,309	2,055,998	27,962,593
	31 December 2012					Total
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	
Currency swaps:						
Purchases	2,905,537	175,123	397,452	101,297	-	3,579,409
Sales	1,207,110	175,022	390,123	101,114	-	1,873,369
Currency forwards:						
Purchases	1,028,194	144,204	124,587	-	-	1,296,985
Sales	1,044,008	144,156	124,548	-	-	1,312,712
Cross currency interest rate swaps:						
Purchases	-	106,800	44,500	1,175,757	-	1,327,057
Sales	-	90,990	38,250	1,131,559	-	1,260,799
Interest rate swaps:						
Purchases	-	-	-	766,705	696,726	1,463,431
Sales	-	-	-	766,705	696,726	1,463,431
Currency options:						
Purchases	444,751	61,477	32,067	-	-	538,295
Sales	444,746	61,483	32,067	-	-	538,296
Other:						
Purchases	-	-	-	-	2	2
Sales	1,671,932	-	-	-	-	1,671,932
Total of purchases	4,378,482	487,604	598,606	2,043,759	696,728	8,205,179
Total of sales	4,367,796	471,651	584,988	1,999,378	696,726	8,120,539
Total of derivatives	8,746,278	959,255	1,183,594	4,043,137	1,393,454	16,325,718

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9. Repurchase agreements

The Group lends its extra fund as a result of daily operations to other financial institutions through reverse repurchase agreements. Assets purchased under reverse repurchase agreements are as follows:

	31 December 2013		31 December 2012	
	Fair value of underlying assets	Carrying Value of corresponding assets	Fair value of underlying assets	Carrying Value of corresponding assets
Reverse repurchase agreements	1,101	1,000	3,801	3,701

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. Repurchase agreements are commonly used as a tool for short-term financing of interest-earning assets, depending on the prevailing interest rates. Assets sold under repurchase agreements comprise the following:

	31 December 2013		31 December 2012	
	Fair value of underlying assets	Carrying Value of corresponding liabilities	Fair value of underlying assets	Carrying Value of corresponding liabilities
Financial assets at fair value through profit or loss	-	-	983	955
Investment securities- Available for sale portfolio	11,301,427	10,348,674	7,797,052	6,213,724
Investment securities- Held to maturity portfolio	4,831,230	4,231,671	2,184,752	2,276,212
	16,132,657	14,580,345	9,982,787	8,490,891

Accrued interest on obligations under repurchase agreements amounted to TL 27,615 (31 December 2012: TL 15,520) and is included in the carrying amount of corresponding liabilities.

In general, the fair values of such assets are more than the corresponding liabilities due to the margins set between parties, since such funding is raised against assets collateralized.

10. Loans and advances to banks

Loans and advances to banks comprise balances with more than three months maturity from the date of acquisition and are as follows as at 31 December 2013 and 2012:

	31 December 2013			31 December 2012		
	TL	FC	Total	TL	FC	Total
Domestic banks	988	28,251	29,239	191,992	84,324	276,316
Foreign banks	-	136,265	136,265	-	38,709	38,709
Total	988	164,516	165,504	191,992	123,033	315,025

As at 31 December 2013, loans and advances to banks with more than three months maturity from the date of acquisition include blocked accounts of TL 6,669 (31 December 2012: TL 157,894) held against the insurance liabilities of the Group in favour of the Turkish Treasury.

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11. Loans and advances to customers

As at 31 December 2013 and 31 December 2012, outstanding loans and advances to customers comprise the followings:

	31 December 2013	31 December 2012
Corporate loans	57,726,558	42,544,577
Consumer loans	25,024,694	21,568,856
Credit cards	3,837,261	3,214,767
Loans to financial institutions	1,427,801	1,449,100
Finance lease receivables, net of unearned income (Note 12)	900,223	676,919
Factoring receivables	166,984	185,797
Total performing loans	89,083,521	69,640,016
Non-performing loans	3,822,880	2,925,315
Total gross loans	92,906,401	72,565,331
Allowance for possible loan losses from loans and advances to customers	(3,731,355)	(2,738,448)
<i>Specific impairment</i>	(2,977,836)	(2,299,686)
<i>Collective impairment</i>	(753,519)	(438,762)
Loans and advances to customers, net	89,175,046	69,826,883

The specific allowance for possible losses is comprised of amounts for specifically identified as being impaired and non-performing loans and advances.

Movements in the allowance for possible loan losses are as follows:

	31 December 2013	31 December 2012
Reserve at the beginning of the year	2,738,448	2,109,487
Adjustment for currency translation	(2,933)	(644)
Reserve for possible loan losses provided during the year	1,256,218	1,071,971
Recoveries	(259,294)	(430,467)
Provision, net of recoveries	3,732,439	2,750,347
Loans written off during the year	(1,084)	(11,899)
Reserve at the end of the year	3,731,355	2,738,448

12. Finance lease receivables

The finance leases typically run for a period of one to five years, with transfer of ownership of the leased asset at the end of the lease term. Interest is charged over the period of the lease.

The receivables are secured by way of the underlying assets. Minimum lease receivables from customers include the following finance lease receivables:

	31 December 2013	31 December 2012
Finance lease receivables, net of unearned incomes (Note 11)	900,223	676,919
Add: non-performing lease receivables	123,442	59,785
Total finance lease receivables	1,023,665	736,704
Less: allowance for possible losses on lease receivables	(47,780)	(27,462)
Finance lease receivables, net	975,885	709,242

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12. Finance lease receivables (continued)

	31 December 2013	31 December 2012
Due within one year	293,886	356,267
Due between 1 and 5 years	720,602	407,351
More than five years	90,113	45,397
Finance lease receivables, gross	1,104,601	809,015
Unearned income	(128,716)	(99,773)
Finance lease receivables, net	975,885	709,242
Due within one year	248,209	310,152
Due between 1 and 5 years	642,756	356,394
More than five years	84,920	42,696
Finance lease receivables, net	975,885	709,242

13. Investment securities

As at 31 December 2013 and 2012, investment securities comprise the following:

	31 December 2013	31 December 2012
Available-for-sale financial assets	16,742,096	14,617,222
Held-to-maturity investment securities	5,413,171	4,261,060
Total investment securities	22,155,267	18,878,282

Available-for-sale financial assets:

	31 December 2013		31 December 2012	
	Face Value	Carrying Value	Face Value	Carrying Value
<i>Debt and other instruments available-for-sale:</i>				
Government bonds in TL	12,333,229	12,551,950	9,492,659	10,275,713
Eurobonds issued by the Turkish Government	3,598,048	3,802,827	3,127,544	3,854,663
Bonds issued by banks	144,400	119,537	119,048	108,887
Government bonds in foreign currencies	137,124	140,958	75,769	83,272
Treasury bills in TL	-	-	-	-
Corporate bonds	26,962	21,176	-	-
	16,636,448		14,322,535	
<i>Equity and other non-fixed income instruments:</i>				
Equity shares		105,648		294,687
		105,648		294,687
Total available-for-sale financial assets	16,742,096		14,617,222	

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13. Investment securities (continued)

As at 31 December 2013 and 2012, equity shares comprised the following:

	31 December 2013	31 December 2012
<i>Quoted investments:</i>		
T. Sınai Kalkınma Bankası AŞ ^(*)	-	211,440
<i>Unquoted investments:</i>		
Güney Ege Enerji Ltd Şti	209,738	209,738
Vakıf Pazarlama Sanayi ve Ticaret AŞ	103,942	102,797
Bayek Tedavi ve Sağlık Hizmetleri AŞ	33,954	33,954
Vakıf Gayrimenkul Ekspertiz ve Değerleme A.Ş.	19,800	20,494
İMKB Takas ve Saklama Bankası AŞ	17,926	9,600
Vakıf İnşaat Restorasyon AŞ	10,838	8,504
Roketsan Roket Sanayi ve Ticaret AŞ	7,593	7,593
Mastercard Incorporated	6,562	6,562
İzmir Enternasyonal AŞ	6,178	6,178
Visa Inc.	4,188	4,188
Others	15,906	13,087
	436,625	422,695
Impairment	(330,977)	(339,448)
Total investment securities	105,648	294,687

^(*)The Management has reassessed the investment in this entity and it is concluded that the Group has significant influence in the investment. This investment is reclassified from available-for-sale financial assets to investment in equity-accounted investees based on the Management's reassessment in 2013.

The following table summarizes available-for-sale financial assets that were deposited as collaterals with respect to various banking transactions:

	31 December 2013		31 December 2012	
	Face Value	Carrying Value	Face Value	Carrying Value
Deposited at financial institutions for repurchase transactions	8,345,593	8,466,807	6,859,678	7,773,894
Deposited at other institutions for repurchase transactions	2,715,987	2,834,620	21,947	23,158
Others	498,165	503,361	247,684	286,922
	11,804,788	11,804,788	8,083,974	8,083,974

Held-to-maturity investment securities:

	31 December 2013			31 December 2012		
	Face Value	Carrying Value	Fair Value	Face Value	Carrying Value	Fair Value
<i>Debt instruments:</i>						
Government bonds in TL	4,298,673	5,358,742	5,249,032	3,984,475	4,198,301	4,412,937
Certificate of deposits	42,839	42,839	42,800	53,400	53,447	53,457
Eurobonds issued by the Turkish Government	11,081	11,590	11,496	8,834	9,312	9,858
Total held-to-maturity investment securities		5,413,171	5,303,328		4,261,060	4,476,252

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13. Investment securities (continued)

Movements of held to maturity investment securities are as follows:

	Current year	Previous year
At the beginning of the year	4,261,060	5,979,238
Effect of change in foreign exchange rate	54,323	(114,339)
Purchases during the year	2,530,205	210,825
Transfers to available for sale portfolio(*)	-	(1,474,294)
Disposals through sales/redemptions	(1,507,738)	(275,294)
Change in amortized cost	75,321	(65,076)
At the end of the year	5,413,171	4,261,060

(*) In the scope of "Regulation Regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" which is effective from 1 July 2012, the credit risk weight of foreign currency denominated debt securities has changed and therefore the Bank reclassified certain investment securities that were previously classified in held-to-maturity portfolio with total face value of USD 706,011,000 (full US Dollar) and EUR 60,002,000 (full EURO) to its available-for-sale investment securities portfolio. The securities reclassified from held-to-maturity portfolio with amortized cost of TL 1,422,452 and fair value of TL 1,733,819 in total to available-for-sale investment securities portfolio as at the reclassification date.

The following table summarizes held-to-maturity investment securities that were deposited as collaterals with respect to various banking transactions:

	31 December 2013		31 December 2012	
	Face Value	Carrying Value	Face Value	Carrying Value
Deposited at financial and other institutions for repurchase transactions	3,281,601	3,609,552	231,650	239,380
Deposited at Central Bank of Turkey for repurchase transactions	1,289,930	1,221,678	1,832,452	1,945,372
Deposited at Central Bank of Turkey for interbank transactions	270,312	272,247	471,648	505,059
Deposited at Istanbul Stock Exchange for the transaction of financial instruments	2,707	9,007	220,110	228,790
Deposited at Turkish Derivative Exchange	30	31	30	31
Others	42,800	42,839	53,400	53,447
Total		5,155,354		2,972,079

14. Investment in equity-accounted investees

As at 31 December 2013 and 2012 investments in equity participations accounted for using the equity method are as follows:

	31 December 2013	31 December 2012
<i>Unquoted investments:</i>		
Kıbrıs Vakıflar Bankası Ltd.	10,102	9,930
T. Sınai Kalkınma Bankası AŞ(*)	181,692	-
Total	191,794	9,930

(*) The Management has reassessed the investment in this entity and it is concluded that the Group has significant influence in the investment. This investment is reclassified from available-for-sale financial assets to investment in equity-accounted investees based on the Management's reassessment in 2013.

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15. Property and equipment and intangible assets

Movements in property and equipment and intangible assets from 1 January to 31 December 2013 and 1 January to 31 December 2012 are as follows:

Property and equipment	1 January 2013	Currency translation difference	Additions	Disposals	31 December 2013
<i>Cost:</i>					
Land and buildings	890,654	(1,014)	32,328	(3,132)	918,836
Motor vehicles	55,132	(10)	2,056	(2,745)	54,433
Furniture, office equipment and leasehold improvements	548,584	(520)	63,729	(18,862)	592,931
Other tangibles	312,813	(1)	153,593	(8,587)	457,818
	1,807,183	(1,545)	251,706	(33,326)	2,024,018
<i>Accumulated depreciation:</i>					
Land and buildings	272,360	(735)	27,954	(1,492)	298,087
Motor vehicles	33,428	(9)	6,723	(2,745)	37,397
Furniture, office equipment and leasehold improvements	428,839	(434)	39,340	(17,423)	450,322
Other tangibles	187,489	(1)	40,433	(8,556)	219,365
	922,116	(1,179)	114,450	(30,216)	1,005,171
Net book value	885,067				1,018,847
<i>Intangible assets</i>					
	1 January 2013	Currency translation difference	Additions	Disposals	31 December 2013
<i>Cost:</i>					
Software programmes	148,914	(282)	42,270	(21,737)	169,165
	148,914	(282)	42,270	(21,737)	169,165
<i>Accumulated amortization:</i>					
Software programmes	48,865	(265)	13,873	(21,438)	41,035
	48,865	(265)	13,873	(21,438)	41,035
Net book value	100,049				128,130

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15. Property and equipment and intangible assets (continued)

Property and equipment	1 January 2012	Currency translation difference	Transfers	Additions	Disposals	31 December 2012
<i>Cost:</i>						
Land and buildings	770,273	(162)	100,516	33,173	(13,146)	890,654
Motor vehicles	57,386	(1)	-	2,601	(4,854)	55,132
Furniture, office equipment and leasehold improvements	530,732	(70)	-	45,350	(27,428)	548,584
Other tangibles	284,631	-	-	50,207	(22,025)	312,813
	1,643,022	(233)	100,516	131,331	(67,453)	1,807,183
<i>Accumulated depreciation:</i>						
Land and buildings	266,247	(98)	(2,899)	22,056	(12,946)	272,360
Motor vehicles	30,160	(1)	-	7,700	(4,431)	33,428
Furniture, office equipment and leasehold improvements	403,078	(57)	-	53,246	(27,428)	428,839
Other tangibles	162,837	-	-	32,667	(8,015)	187,489
	862,322	(156)	(2,899)	115,669	(52,820)	922,116
Net book value	780,700					885,067

Intangible assets	1 January 2012	Currency translation difference	Transfers	Additions	Disposals	31 December 2012
<i>Cost:</i>						
Software programmes	117,046	(38)	-	31,962	(56)	148,914
	117,046	(38)		31,962	(56)	148,914
<i>Accumulated amortization:</i>						
Software programmes	36,975	(37)	-	11,973	(46)	48,865
	36,975	(37)		11,973	(46)	48,865
Net book value	80,071					100,049

There are no restrictions such as pledges, mortgages or any other restriction on the property and equipment.

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16. Other assets

	31 December 2013	31 December 2012
Reserve deposit at Central Bank of Turkey	14,542,489	8,108,813
Assets held for resale	632,261	627,109
Receivables from reinsurance activities	598,482	482,067
Receivables from credit card payments	596,284	387,146
Prepaid expenses	518,833	412,840
Guarantees given for repurchase agreements	392,641	9,707
Receivables from insurance activities	293,382	272,071
Receivables from term sales of fixed assets	96,948	47,410
Deferred acquisition costs for insurance contracts, gross	86,788	77,015
Collaterals for derivative financial instruments	61,219	134,520
Investment properties	20,829	55,041
Prepaid taxes other than income tax and funds to be refunded	20,516	18,654
Others	145,733	95,143
Total other assets	18,006,405	10,727,536

As at 31 December 2013, reserve deposits at the CBT were kept as the minimum reserve requirement. These funds are not available for the daily operations of the Group. As required by Turkish Banking Law, these reserve deposits are calculated on the basis of domestic liabilities of the Bank after some deductions, at the rates determined by the CBT.

In accordance with “Announcement on Reserve Deposits” of CBT numbered 2005/1, all banks operating in Turkey shall provide a reserve rate of 11.5% for demand deposits, and the rates decrease to 5% as maturities get longer (31 December 2012: 11% for demand deposits, and the rates decrease to 5% as maturities get longer). For foreign currency liabilities, all banks shall provide a reserve rate of 13% in US Dollar or Euro for demand and upto 1 year maturity deposits and rates decrease to 6% as maturities get longer (31 December 2012: 11.5% in US Dollar or Euro for demand and upto 1 year maturity deposits and rates decrease to 6% as maturities get longer).

As at 31 December 2013, TL 632,261 (31 December 2012: TL 627,109) of the other assets is comprised of foreclosed real estate acquired by the Group against its impaired receivables. Such assets are required to be disposed of within three years following their acquisitions per the Turkish Banking Law. This three year period can be extended by a legal permission from BRSA.

Commissions and other acquisition costs given to the intermediaries that vary with and are related to securing new contracts and renewing existing insurance contracts are capitalized as deferred acquisition cost. For the years ended 31 December 2013 and 2012, movement of deferred acquisition cost is as follows:

	31 December 2013	31 December 2012
Deferred acquisition cost at the beginning of the year	77,015	79,501
Addition	150,272	141,841
Transfer to profit/loss	(140,499)	(144,327)
Deferred acquisition cost at the end of the year	86,788	77,015

17. Trading liabilities

As at 31 December 2013 and 2012, trading liabilities comprise negative fair value differences of derivative financial instruments held for trading purpose and are as follows:

	31 December 2013	31 December 2012
Forwards	28,168	4,197
Swaps	189,247	195,040
Options	2,065	455
Total trading liabilities	219,480	199,692

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18. Deposits from banks

As at 31 December 2013 and 2012, deposits from banks comprise the following:

	31 December 2013	31 December 2012
Demand deposits	25,537	15,263
Time deposits	4,273,454	4,229,426
Total deposits from banks	4,298,991	4,244,689

19. Deposits from customers

As at 31 December 2013 and 2012, deposits from customers comprise the following:

	31 December 2013		31 December 2012	
	Demand Deposit	Time Deposit	Demand Deposit	Time Deposit
Saving deposits	2,981,927	17,913,065	2,046,323	15,044,654
Foreign currency deposits	2,217,403	18,088,035	1,900,858	14,238,501
<i>Residents in Turkey</i>	<i>1,653,082</i>	<i>14,056,114</i>	<i>1,524,471</i>	<i>11,825,163</i>
<i>Residents in abroad</i>	<i>564,321</i>	<i>4,031,921</i>	<i>376,387</i>	<i>2,413,338</i>
Commercial deposits	1,756,601	14,983,863	1,297,414	9,740,311
Public sector deposits	3,132,866	8,807,234	2,706,233	9,013,912
Others	3,791,076	5,111,147	3,095,938	5,134,891
Total deposits from customers	13,879,873	64,903,344	11,046,766	53,172,269

20. Funds borrowed

As at 31 December 2013 and 2012, funds borrowed comprise the followings in accordance with their original maturities:

	31 December 2013		31 December 2012	
	TL	Foreign currency	TL	Foreign Currency
<i>Short-term funds</i>	<i>158,470</i>	<i>6,753,818</i>	<i>252,656</i>	<i>4,744,060</i>
<i>Short-term portion of long term funds</i>	<i>53,426</i>	<i>4,416,037</i>	<i>41,985</i>	<i>43,714</i>
Total short-term funds	211,896	11,169,855	294,641	4,787,774
Medium/long term funds	225,850	699,063	8,112	3,041,822
Total funds borrowed	437,746	11,868,918	302,753	7,829,596

On 1 September 2010, the Bank obtained a syndication loan at the amount of US Dollar 135 million with interest rate of Libor + 1.30% and Euro 408 million with interest rate of Euribor + 1.30% at 1 year maturity; and syndication loan at the amount of US Dollar 10 million with interest rate of Libor + 1.75% and Euro 45 million with interest rates of Euribor + 1.75% at 2 years maturity with the participation of 32 banks under the coordination of West LB AG. The Bank has repaid the part of the loan with one year maturity on 6 September 2011. On 6 September 2011, repayment of loan's one year maturity segments was realized. On 31 August 2012, two years maturity segments were paid off.

This loan has been renewed with a syndicated loan at the amount of US Dollar 145 million and Euro 433 million with interest rates of US Libor + 1.00 % and Euribor + 1.00 % at a maturity of one year, with the participation of 26 banks under the coordination of ING Bank NV on 7 September 2011. The syndicated loan's repayment was realized on 10 September 2012. This loan has been renewed with a syndicated loan at the amount of US Dollar 151 million and Euro 444.5 million with the interest rate of US Libor + 1.35% and Euribor + 1.35% at a maturity of one year, with the participation of 24 banks with the coordination and agency of ING Bank N.V. on 18 September 2012.

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20. Funds borrowed (continued)

The loan's payment was realized on 20 September 2013 and as at the same date the loan has been renewed with a syndicated loan at the amount of US Dollar 166 million and Euro 471 million with the interest rate of US Libor + 0.75% and Euribor + 0.75% at a maturity of one year, with the participation of 27 banks with the coordination and agency of ING Bank N.V. London.

On 28 March 2011, the Bank has obtained syndication loan of US Dollar 192.5 million and Euro 573.5 million with one year maturity at the cost Libor + 1.10% for US Dollar and Euribor + 1.10% for Euro, with the participation of 34 banks under the coordination of West LB AG, the loan was repaid on 29 March 2012. This loan has been renewed with a syndicated loan at the amount of US Dollar 152 million and Euro 586.7 million with interest rates of US Libor + 1.45 % and Euribor + 1.45 % at a maturity of one year, with the participation of 41 banks under the coordination of Wells Fargo Bank NA on 10 April 2012. Repayment of the loan obtained on 10 April 2012 was realized on 12 April 2013. This loan has been renewed with a syndicated loan amounting to US Dollar 251.5 million and Euro 555.2 million with interest rates of US Libor + 1.00 % and Euribor + 1.00 % at a maturity of one year, with the participation of 38 banks, Sumitomo Mitsui Banking Corporation and Brussels Branch acting as agent banks and under the coordination of Bank of America Merrill Lynch on 11 April 2013.

21. Debt securities issued

	31 December 2013		31 December 2012						
	TL	FC	TL	FC					
Nominal	2,357,636	4,499,865	1,503,658	889,540					
Cost	2,256,108	4,477,363	1,450,829	879,752					
Net Book Value	2,301,798	4,518,937	1,482,073	890,675					
Current year									
ISIN Code	Security Type	Coupon Rate(%)	Currency Type	Issue Date	Maturity Date	Days to Maturity	Nominal	Cost	Net Book Value
XS0916347759	Fixed	3.75	USD	15.04.2013	15.04.2018	1,826	1,282,968	1,275,986	1,287,414
XS0987355939	Fixed	5	USD	31.10.2013	31.10.2018	1,826	1,070,000	1,063,045	1,072,420
US90015NAA19	Fixed	5.75	USD	24.04.2012	24.04.2017	1,826	1,056,730	1,048,377	1,063,882
TRQVKFB21415	Discounted	-	TL	06.09.2013	28.02.2014	175	648,883	620,788	639,392
TRQVKFB51438	Discounted	-	TL	08.11.2013	02.05.2014	175	617,443	594,194	601,272
TRQVKFB61411	Discounted	-	TL	20.12.2013	06.06.2014	168	613,114	589,153	590,850
TRQVKFB21423	Discounted	-	TL	06.09.2013	28.02.2014	175	187,216	179,130	184,485
XS0957643801	Fixed	1.9	USD	06.08.2013	06.02.2014	184	154,508	154,462	155,705
TRQVKFB11416	Discounted	-	TL	18.01.2013	17.01.2014	364	145,464	136,844	144,999
XS0960939857	Fixed	1.97	USD	15.08.2013	13.02.2014	182	118,984	118,966	119,884
XS1000211968	Fixed	1.3	USD	04.12.2013	06.03.2014	92	118,984	118,984	119,104
XS0963672950	Fixed	1.95	USD	20.08.2013	13.02.2014	177	117,700	117,688	118,550
XS1008673540	Fixed	1.59	USD	24.12.2013	23.06.2014	181	85,600	85,596	85,626
XS0976659234	Fixed	1.73	USD	03.10.2013	03.04.2014	182	64,200	64,161	64,458
XS0982276528	Fixed	1.67	USD	11.10.2013	16.01.2014	97	64,200	64,192	64,443
XS0986042439	Fixed	1.62	USD	28.10.2013	21.01.2014	85	63,344	63,340	63,528
TRQVKFB51412	Discounted	-	TL	17.05.2013	16.05.2014	364	61,522	58,211	60,210
TRQVKFB51420	Discounted	-	TL	05.07.2013	16.05.2014	315	53,415	49,922	51,859
XS0979045886	Fixed	1.67	USD	07.10.2013	06.01.2014	91	51,360	51,356	51,565
XS0993260933	Fixed	1.25	USD	12.11.2013	10.02.2014	90	47,080	47,080	47,162
XS0977254621	Fixed	1.66	USD	02.10.2013	09.01.2014	99	43,442	43,437	43,624
XS0973201444	Fixed	1.83	USD	20.09.2013	24.03.2014	185	41,516	41,512	41,731
XS0974147695	Fixed	1.66	USD	23.09.2013	06.01.2014	105	38,306	38,302	38,482
XS0943035328	Floating	1.53	EUR	14.06.2013	16.06.2014	367	29,489	29,445	29,720
TRQVKFB81419	Discounted	-	TL	06.09.2013	22.08.2014	350	30,579	27,866	28,731
XS0942820803	Fixed	1.00	CHF	12.06.2013	13.06.2014	366	27,914	27,900	28,065
XS0997543896	Fixed	1.49	USD	22.11.2013	28.05.2014	187	23,540	23,534	23,574
Total							6,857,501	6,733,471	6,820,735

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21. Debt securities issued (continued)

Prior year									
ISIN Code	Security Type	Coupon Rate(%)	Currency Type	Issue Date	Maturity Date	Days to Maturity	Nominal	Cost	Net Book Value
US90015NAA19	Fixed	5.75	USD	24.04.2012	24.04.2017	1,826	889,540	879,752	890,675
TRQVKFB11317	Discounted	-	TL	27.07.2012	18.01.2013	175	610,517	586,162	608,070
TRQVKFB51313	Discounted	-	TL	27.11.2012	17.05.2013	171	511,348	496,269	499,318
TRQVKFB31315	Discounted	-	TL	21.09.2012	15.03.2013	175	164,324	158,716	161,954
TRSVKFB61318	Floating	-	TL	01.06.2012	10.06.2013	374	101,796	101,796	102,305
TRQVKFB61312	Discounted	-	TL	27.07.2012	10.06.2013	318	64,425	59,795	62,026
TRQVKFBK1314	Discounted	-	TL	27.11.2012	08.11.2013	346	51,248	48,091	48,400
Total							2,393,198	2,330,581	2,372,748

22. Subordinated liabilities

The Bank has issued bond having the secondary subordinated debt quality to be sold non-resident natural and legal persons. The bond has been issued at the nominal value of USD 500 million, with maturity of 10 years and 6.0% coupon rate.

In addition to the issuance of the bond having the secondary subordinated debt realized on 1 November 2012, the Bank, has realized second tranche in issuance of the bond having the secondary subordinated debt quality to be sold in foreign bond markets. The bond has been issued at nominal value of USD 400 million, has the same maturity with previous bond and 5.5% coupon rate.

The Bank has obtained written permission of the BRSA for accounting these bonds as secondary subordinated debt and accordingly considering in the calculation of supplementary capital in compliance with the “Regulation on Capitals of the Banks” published on “ November 2006 dated and 26333 numbered Official Gazette.

As at 31 December 2013, carrying value of subordinated liabilities amount to TL 1,964,663 (31 December 2012: TL 1,630,188).

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23. Other liabilities and provisions

The principal components of other liabilities and accrued expenses are as follows:

	31 December 2013	31 December 2012
Accounts against expenditures of credit card holders	2,327,420	2,027,044
Import letter of credit	711,016	486,243
Reserve for unearned insurance premiums	617,512	510,300
Reserve for outstanding claims for insurance contracts	598,346	436,409
Reserve for employee severance indemnity	292,365	243,602
Unearned income	263,982	183,242
Reserve for short term employee benefits	196,442	165,638
Long term insurance contracts	189,991	152,463
Clearing account	184,740	237,941
Taxes payable other than income tax	177,079	171,559
Collaterals due to derivative financial instruments	160,511	20,979
Investment contract liabilities	129,747	169,611
Miscellaneous payables	129,066	139,788
Payables due to insurance activities	109,808	106,624
Other provisions	99,263	127,324
Provision for unused vacations	76,703	67,383
Provision for non-cash loans	54,771	36,173
Deferred commission income for insurance contracts	52,475	42,520
Payables to suppliers relating to finance lease activities	45,048	90,571
Blocked accounts	41,807	36,351
Other liabilities	131,525	92,347
Total other liabilities and provisions	6,589,617	5,544,112

Insurance contract liabilities are detailed in the tables below:

Reserve for unearned insurance premiums	31 December 2013	31 December 2012
Reserve for unearned insurance premiums, net	335,079	280,219
Reserve for unearned insurance premiums, reinsurer share	282,433	230,081
Reserve for unearned insurance premiums, gross	617,512	510,300

Reserve for unearned insurance premiums (net)	31 December 2013	31 December 2012
At the beginning of the year	280,219	208,247
Premiums written during the year (Note 28)	835,467	655,323
Premiums earned during the year (Note 28)	(780,607)	(583,351)
At the end of the year	335,079	280,219

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23. Other liabilities and provisions (continued)

Provision for outstanding claims	31 December 2013	31 December 2012
Provision for outstanding claims, net	320,174	205,030
Provision for outstanding claims, reinsurer share	278,172	231,379
Provision for outstanding claims, gross	598,346	436,409
Provision for outstanding claims (net)	31 December 2013	31 December 2012
At the beginning of the year	205,030	185,121
Cash paid for claims settled during the year (Note 30)	(478,284)	(376,707)
Increase during the year (Note 30)	593,428	396,616
At the end of the year	320,174	205,030
Long term insurance contracts	31 December 2013	31 December 2012
At the beginning of the year	322,074	291,164
Entrance during the year	79,655	37,994
Withdrawals during the year	(81,991)	(10,488)
Change in fair value of investments held for investment contracts	-	3,404
At the end of the year	319,738	322,074
<i>Long term insurance contracts</i>	<i>189,991</i>	<i>152,463</i>
<i>Investment contract liabilities</i>	<i>129,747</i>	<i>169,611</i>

Movement in the reserve for employee severance indemnity is as follows:

Reserve for employee severance indemnity	31 December 2013	31 December 2012
At the beginning of the year	243,602	186,920
Currency translation difference	76	(8)
Interest cost	21,515	19,133
Service cost	17,379	15,165
Payment during the year	(20,122)	(20,713)
Actuarial difference	29,915	43,105
At the end of the year	292,365	243,602

24. Income taxes

Components of income tax expense recognized in the consolidated statement of comprehensive income are as follows:

	31 December 2013	31 December 2012
Income tax recognized in profit or loss for the year		
Current income tax related to income from operations	(464,944)	(464,512)
Deferred income tax related to income from operations	88,359	56,427
	(376,585)	(408,085)
Income tax recognized in other comprehensive income		
Current income tax recognized in other comprehensive income	76,633	(59,957)
Deferred income tax recognized in other comprehensive income	17,574	(22,615)
	94,207	(82,572)
Income tax expense recognized in the consolidated statement of total comprehensive income	(282,378)	(490,657)

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24. Income taxes (continued)

The movement of current tax liabilities is as follows:

	31 December 2013	31 December 2012
At the beginning of the year	172,808	22,898
Current income tax charge	464,944	494,309
Current income tax recognized under equity	(76,633)	30,160
Taxes paid during the year	(499,720)	(374,559)
Current tax liabilities	61,399	172,808

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

	31 December 2013	Tax rate (%)	31 December 2012	Tax rate (%)
Profit from ordinary activities before income tax and non-controlling interest	2,120,588		2,002,187	
Taxes on income per statutory tax rate	(424,118)	(20.00)	(400,437)	(20.00)
Income not subject to tax	54,854	2.59	12,663	0.63
Investment incentives	(4,999)	(0.24)	(131)	(0.01)
Disallowable expenses	(13,742)	(0.65)	(18,595)	(0.93)
Others, net	11,420	0.54	(1,585)	(0.07)
Income tax expense	(376,585)	(17.76)	(408,085)	(20.38)

Deferred tax assets and liabilities at 31 December 2013 and 31 December 2012 are attributable to the items below:

	31 December 2013	31 December 2012
Other provisions	109,982	77,390
Valuation differences of financial assets and liabilities	78,222	56,803
Provision for employee severance indemnity and unused vacations	74,807	61,827
Tax losses carried forward	24,601	13,479
Investment incentive	21,053	26,052
Valuation difference for property and equipment	9,301	14,522
Other temporary differences	5,805	2,674
Deferred tax assets	323,771	252,747
Net-off of the deferred tax assets and liabilities from the same entity	(125,168)	(34,990)
Deferred tax assets, (net)	198,603	217,757
Valuation differences of financial assets and liabilities	118,291	36,274
Other temporary differences	10,855	5,394
Deferred tax liabilities	129,146	41,668
Net-off of the deferred tax assets and liabilities from the same entity	(125,168)	(34,990)
Deferred tax liabilities, (net)	3,978	6,678

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25. Earnings per share

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

There is no dilution of shares as at 31 December 2013 and 2012.

The following reflects the basic earnings per share computations:

	31 December 2013	31 December 2012
Net profit attributable for the year	1,744,003	1,594,102
Number of 100 ordinary shares for basic earnings per shares	2.500.000.000	2.500.000.000
Basic earnings per 100 share	0.6976	0.6379

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

26. Equity

Share capital

As at 31 December 2013, the authorized nominal share capital of the Bank amounts to TL 2,500,000 (31 December 2012: TL 2,500,000). The Bank's paid-in capital is divided into 250.000.000.000 shares, each with a nominal value of 1 Kuruş. As at 31 December 2013, share capital presented in equity amounts to TL 3,300,146 (31 December 2012: TL 3,300,146). An adjustment to share capital amounting to TL 800,146 at 31 December 2013 (31 December 2012: TL 800,146) represents the restatement effect of the contributions to share capital in equivalent purchasing power of TL at 31 December 2005. Paid-in capital of the Bank amounting to TL 2,500,000 is divided into groups as follows: 43.0% Group (A), 15.6 % Group (B), 16.2% Group (C) and 25.2% Group (D). There is no difference between those groups in terms of dividend rights or any other privileges except for:

- Board of Directors' members; one member is appointed by the Prime Minister representing The General Directorate of the Foundations (Group A), three members are appointed representing Group (A), one member is appointed representing Group (B), and two members are appointed representing Group (C), and one member is appointed among the nominees offered by the shareholders at the General Assembly. Preference of Group (D) is primarily taken into account in the selection of the last mentioned member.

Legal reserves

The legal reserves consist of first and second reserves, appropriated in accordance with the Turkish Commercial Code ("TCC"). The TCC stipulates that the first legal reserve is appropriated out of the statutory profits of the Bank and its subsidiaries at the rate of 5%, until the total reserve reaches 20% of paid-in share capital. The second legal reserve is appropriated at the rate of 10% of all cash distributions in excess of 5% of the paid-in share capital. Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless they exceed 50% of paid-in share capital.

Based on the resolution of the 59th Annual General Assembly held on 29 March 2013, the Bank's statutory profit for the year ended 31 December 2012 amounting to TL 1,460,080 has been transferred to legal reserves amounting to TL 143,166 and to other reserves amounting to TL 1,216,914; and the remaining profit amounting to TL 100,000 has been decided to be distributed as dividends to equity holders of the Bank.

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26. Equity (continued)

Non-controlling interest

As at 31 December 2013, non-controlling interest is analysed as follows:

	31 December 2013	31 December 2012
Capital and other reserves	450,426	484,583
Legal reserves	22,663	22,847
Retained earnings	(41,048)	(44,537)
Profit for the year	(23,836)	2,003
Total non-controlling interest	408,205	464,896

Fair value reserves of available-for-sale financial assets:

	31 December 2013	31 December 2012
Balance at the beginning of the year	873,807	(13,977)
Net gains/(losses) from changes in fair values	(884,071)	1,004,177
Related deferred and current income taxes	94,641	(76,391)
Net gains transferred to profit or loss on disposal	(246,196)	(33,821)
Related deferred and current income taxes	(6,417)	(6,181)
Balance at the end of the year	(168,236)	873,807

27. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. For the purpose of these consolidated financial statements, shareholders and Group companies are referred to as related parties. Related parties also include individuals that are principal owners and management and members of the Group's Board of Directors and their families.

In the course of conducting its banking business, the Group conducted some business transactions with related parties on commercial terms.

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

Outstanding balances

	31 December 2013	31 December 2012
Cash loans	26,102	9,372
Non-cash loans	711,315	603,228
Deposits taken	1,283,081	1,221,935

Transactions entered into

	31 December 2013	31 December 2012
Interest income	679	608
Interest expense	(35,913)	(63,241)
Commission income	888	301
Other operating income	34,762	7,233
Other operating expense	(6,209)	(4,254)

No guarantees have been taken for the receivables from related parties.

There are no non performing loans from related parties.

Directors' Remuneration

As at and for the year ended 31 December 2013, the key management and the members of the Board of Directors received remuneration and fees amounted to TL 23,548 (31 December 2012: TL 19,388).

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28. Other income

As at and for years ended 31 December 2013 and 2012, other income comprised the followings:

	31 December 2013	31 December 2012
Earned premiums (Note 23)	780,607	583,351
Written premiums (Note 23)	835,467	655,323
Change in reserve for unearned premiums	(54,860)	(71,972)
Excess fee charged to customers for communication expenses	85,215	81,146
Income from sale of fixed assets	53,924	33,130
Individual pension business income	38,266	34,068
Dividend income from equity shares	18,017	7,647
Rent income	2,534	8,801
Others	70,483	152,071
Total	1,049,046	900,214

29. Salaries and employee benefits

As at and for the years ended 31 December 2013 and 2012, salaries and employee benefits comprised the following:

	31 December 2013	31 December 2012
Wages and salaries	(568,098)	(507,762)
Other fringe benefits	(387,577)	(321,975)
Employer's share of social security premiums	(153,837)	(127,602)
Provision for short term employee benefits	(259,492)	(190,437)
Provision for employee termination benefits (Note 23)	(18,772)	(56,690)
Change in provision for liability for unused vacations	(9,179)	(3,858)
Total	(1,396,955)	(1,208,324)

The average number of employees of the Group during the year is:

	31 December 2013	31 December 2012
The Bank	14,943	12,847
Subsidiaries	2,104	2,102
Total	17,047	14,949

Reserve for employee severance indemnity

Reserve for employee severance indemnity represents the present value of the estimated future probable obligation of the Bank and its subsidiaries arising from the retirement of the employees and calculated in accordance with the Turkish Labour Law. It is computed and reflected in the financial statements on an accruals basis as it is earned by serving employees. The computation of the liabilities is based upon the retirement pay ceiling announced by the Government. The ceiling amounts applicable for each year of employment are TL (full TL) 3,254 and TL (full TL) 3,034 as at 31 December 2013 and 31 December 2012, respectively.

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29. Salaries and employee benefits (continued)

Reserve for employee severance indemnity (continued)

IFRSs require actuarial valuation methods to be developed to estimate the entity's obligation under reserve for employee severance indemnity. The main actuarial assumptions used in the calculation of the total liability in the accompanying consolidated financial statements at 31 December 2013 and 2012 are as follows:

	31 December 2013	31 December 2012
Discount Rate	9.70%	7.01%
Inflation Rate	6.40%	5.00%
Increase in Real Wage Rate	7.40%	5.00%

The above rate for salary/limit increase was determined based on the Turkish Government's future targets for annual inflation.

30. Other expenses

As at and for the years ended 31 December 2013 and 2012, other expenses comprised the following:

	31 December 2013	31 December 2012
Incurring insurance claims (Note 23)	(593,428)	(396,616)
Insurance claims paid (Note 23)	(478,284)	(376,707)
Change in provision for outstanding claims	(115,144)	(19,909)
Banking services promotion expenses	(396,767)	(368,789)
Rent expenses and operating lease charges	(183,224)	(155,838)
Advertising expenses	(98,054)	(78,115)
Saving Deposit Insurance Fund premiums	(91,780)	(60,450)
Communication expenses	(82,172)	(76,320)
Cleaning service expenses	(41,734)	(42,506)
Loss on sale of assets	(33,393)	(5,934)
Maintenance expenses	(26,264)	(21,096)
Energy expenses	(24,262)	(26,275)
Office supplies	(21,133)	(19,447)
Credit card promotion expenses	(20,669)	(13,312)
Computer usage expenses	(17,433)	(17,744)
Other provision expenses	(16,390)	(5,440)
BRSA participation fee	(15,687)	(13,378)
Consultancy expenses	(15,135)	(9,376)
Transportation expenses	(14,709)	(17,819)
Hosting expenses	(14,659)	(13,172)
Individual pension business expenses	(3,673)	(35,596)
Change in long term insurance contracts	(2,240)	(69,956)
Other various administrative expenses	(168,680)	(324,780)
Total	(1,881,486)	(1,771,959)

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31. Commitments and contingencies

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

	31 December 2013	31 December 2012
Letters of guarantee	17,901,823	12,640,503
Letters of credit	4,390,249	3,774,709
Acceptance credits	1,052,278	805,832
Other guarantees	62,356	29,993
Total non-cash loans (financial guarantee contracts)	23,406,706	17,251,037
Credit card limit commitments	6,261,117	4,938,035
Loan granting commitments	6,739,356	4,958,548
Commitments for cheque payments	1,320,438	1,154,273
Commitments for credit card and banking operations promotions	238,991	306,109
Total commitments	14,559,902	11,356,965
Total commitments and contingencies	37,966,608	28,608,002

Contingent assets and liabilities

There are various legal cases against the Group for which TL 16,023 (31 December 2012: TL 16,581) has been provided, excluding routine insurance claims.

Due to the nature of insurance business and considering the general attitude of the legal system in favour of the policyholders, the Group provides in full for the claims opened, except for these claims including damages for mental anguish and risks which are not covered by the insurance policies. Since most of such material claims are ceded to reinsurance firms by facultative agreements, such claims, net of ceded amounts have no material effect on the Group's financial position.

Pending tax audits

The tax and other government authorities (Social Security Institution) have the right to inspect the Group's tax returns and accounting records for the past five fiscal years. The Group has not recorded a provision for any additional taxes for the fiscal years that remained unaudited, as the amount cannot be estimated with any degree of certainty. The Group's management believes that no material assessment will arise from any future inspection for unaudited fiscal years.

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32. Subsidiaries and associates

The table below sets out the subsidiaries and associates and shows their shareholding structure as at 31 December 2013 and 2012:

	Direct Shareholding Interest (%)	Indirect Shareholding Interest (%)
31 December 2013		
<i>Subsidiaries:</i>		
Güneş Sigorta AŞ	36.35	36.35
Vakıf B Tipi Menkul Kıymetler Yatırım Ortaklığı AŞ	11.75	21.77
Vakıf Emeklilik AŞ	53.90	75.30
Vakıf Enerji ve Madencilik AŞ	65.50	84.96
Taksim Otelcilik AŞ	51.00	51.52
Vakıf Finans Factoring Hizmetleri AŞ	78.39	86.99
Vakıf Finansal Kiralama AŞ	58.71	64.40
Vakıf Yatırım Menkul Değerler AŞ	99.00	99.44
Vakıf Portföy Yönetimi AŞ	99.99	99.99
Vakıfbank International AG	90.00	90.00
Vakıf Gayrimenkul Yatırım Ortaklığı AŞ	27.63	29.49
World Vakıf UBB Ltd in Liquidation (*)	82.00	85.25
VB Diversified Payment Rights Finance Company (**)	-	-
<i>Associates:</i>		
Kıbrıs Vakıflar Bankası Ltd.	15.00	15.00
T. Sınai Kalkınma Bankası AŞ	8.38	8.38
31 December 2012		
<i>Subsidiaries:</i>		
Güneş Sigorta AŞ	36.35	36.35
Vakıf B Tipi Menkul Kıymetler Yatırım Ortaklığı AŞ	11.75	21.77
Vakıf Emeklilik AŞ	53.90	75.30
Vakıf Enerji ve Madencilik AŞ	65.50	84.96
Taksim Otelcilik AŞ	51.00	51.52
Vakıf Finans Factoring Hizmetleri AŞ	78.39	86.99
Vakıf Finansal Kiralama AŞ	58.71	64.40
Vakıf Yatırım Menkul Değerler AŞ	99.00	99.44
Vakıf Portföy Yönetimi AŞ	99.99	99.99
Vakıfbank International AG	90.00	90.00
Vakıf Gayrimenkul Yatırım Ortaklığı AŞ	27.63	29.49
World Vakıf UBB Ltd. (*)	82.00	85.25
VB Diversified Payment Rights Finance Company (**)	-	-
<i>Associates:</i>		
Kıbrıs Vakıflar Bankası Ltd.	15.00	15.00

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32. Subsidiaries and associates (continued)

(*) World Vakıf UBB Ltd, was established in the Turkish Republic of Northern Cyprus in 1993 for offshore banking operations. Its head office is in Nicosia. The name of the Bank, which was World Vakıf Offshore Banking Ltd, has been changed to World Vakıf UBB. Ltd. on 4 February 2009. Pursuant to the 4 March 2010 dated and 764 numbered decision of Board of Directors of Central Bank of Turkish Republic of Northern Cyprus, the official authorization of World Vakıf UBB Ltd which was subject to consolidation in previous periods, is abrogated due to incompliance with the 7th and 9th articles of 41/2008 numbered Law of International Banking Units. World Vakıf UBB Ltd. will be liquidated according to 24 May 2010 dated decision of the Nicosia Local Court. Therefore, the financial statements of the company have not been consolidated as at 31 December 2010, but its equity until the liquidation decision date has been included in the accompanying consolidated financial statements.

The liquidation process of World Vakıf UBB Ltd, an associate of the Parent Bank, has been carried out by NCTR Collecting and Liquidation Office. The application of the company for cancellation of the liquidation has been rejected and the decision of liquidation has been agreed. Thus, the company's name has been changed as "World Vakıf UBB Ltd in Liquidation".

(**) VB Diversified Payment Rights Finance Company is a special purpose entity established for the Bank's securitization transactions. The Bank or any of its subsidiaries does not have any shareholding interest in this company.

Güneş Sigorta AŞ, was established under the leadership of the Bank and Soil Products Office in 1957. The Company provides nearly all non-life insurance products, including fire, accident, transaction, engineering, agriculture, health, forensic protection, and loan insurance. Its head office is in Istanbul.

Vakıf Emeklilik AŞ, was established under the name *Güneş Hayat Sigorta AŞ* in 1991. In 2003 the Company has taken conversion permission from Treasury and started to operate both in corporate and retail individual pension business. Its head office is in Istanbul.

Vakıf Enerji ve Madencilik AŞ, was established in 2001 to produce electrical and thermal energy, and to sell this energy in accordance with the related laws and regulations. Its head office is in Ankara.

Taksim Otelcilik AŞ, was established under the Turkish Commercial Code in 1966. The main activity of the Company is to operate in the hotel business or rent out the management of owned hotels. Its head office is in Istanbul.

As per 17 June 2010 dated resolution of the Bank's Board of Directors, it is decided to sell 51% shares of the Bank in *Taksim Otelcilik* to domestic or foreign investors and to execute necessary procedures including assignment of a consultant. The Board of Directors of the Bank decided to terminate the block sales of *Taksim Otelcilik AŞ* to be realized in the forthcoming periods.

Vakıf Finans Factoring Hizmetleri AŞ, was established in 1998 to perform factoring transactions. Factoring, the main operation of the Company, is a financing method that allows the trade receivables of production, distribution and service companies to be sold to intermediary institutions. Its head office is in Istanbul.

Vakıf Finansal Kiralama AŞ, was established in 1988 to enter into finance lease operations and related transactions and contracts. Its head office is in Istanbul.

Vakıf Yatırım Menkul Değerler AŞ, was established in 1996 to provide service to investors through making capital markets transactions, the issuance of capital market tools, purchase and sales of marketable securities, operating as a member of stock exchange, investment consultancy and portfolio management. Its head office is in Istanbul.

Vakıf Portföy Yönetimi AŞ, operates in investment fund management, portfolio management and pension fund management. Its head office is in Istanbul.

Vakıf International AG, was established in 1999 to operate in the banking sector in foreign countries, in line with the Bank's globalization policy. Its head office is in Vienna.

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32. Subsidiaries and associates (continued)

Vakıf Gayrimenkul Yatırım Ortaklığı AŞ, was established as the first real estate investment partnership in the finance sector under the adjudication of the Capital Markets Law in 1996. The Company's main operation is in line with the scope in the Capital Markets Board's regulations relating to real estate investment trusts including real estate, capital market tools based on real estate, real estate projects and investing on capital market tools. Its head office is in Ankara.

Vakıf B Tipi Menkul Kıymetler Yatırım Ortaklığı AŞ, was established in 1991 in Istanbul. The main activity of the Company is to invest a portfolio (including marketable debt securities and equity securities) without having managerial power in the partnerships whose securities have been acquired; and also gold and other precious metals trading in national and international stock exchange markets or active markets other than stock exchange markets, in accordance with the principles and regulations promulgated by Capital Markets Board. Its head office is in Istanbul.

Kıbrıs Vakıflar Bankası Ltd. Şti., was established in 1982 in the Turkish Republic of Northern Cyprus, mainly to encourage the usage of credit cards issued by the Bank, to increase foreign exchange inflow, and carry on retail and commercial banking operations. Its head office is in Nicosia.

Türkiye Sınai Kalkınma Bankası AŞ was established as an investment bank in 1950 to support investments in all economical sectors. Its head office is in Istanbul.

33. Subsequent events

In the scope of issuing TL 4,300,000,000 bond and/or bill, Bank has carried out book-building process to issue bond on 13-14-15 January 2014, TL 300 million nominal with 154 days of maturity at 20 June 2014.

As a result, Bank has confirmed to issue bond with TRQVKFB61429 ISIN code, TL 450,000,000 nominal, 154 days maturity, 20 June 2014 maturity date, annual compound interest rate 9,5677%, simple interest rate 9.3156% and issue price TL 96.218.