Türkiye Vakıflar Bankası Türk Anonim Ortaklığı
and Its Subsidiaries

Consolidated Financial Statements
As at 31 December 2012
With Independent Auditors' Report Thereon

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik AŞ

14 March 2013

This report includes "Independent Auditors' Report on Consolidated Financial Statements" comprising 1 page and; "Consolidated Financial Statements Together with their Explanatory Notes" comprising 71 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 2012, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the 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 2012, 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
14 March 2013

KPMG Akis Bağımsız Denetim ve SMMM AŞ

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries
Consolidated Statement of Financial Position
At 31 December 2012
(Currency – Thousands of Turkish Lira (TL))

	Notes	31 December 2012	31 December 2011
ASSETS			
Cash and cash equivalents	7	6,694,856	5,300,750
Financial assets at fair value through profit or loss	8	296,532	361,663
Loans and advances to banks	10	315,025	576,741
Loans and advances to customers	11,12	69,826,883	59,007,202
Investment securities	13	18,878,282	19,511,610
Investment in equity participations accounted for using the equity method	14	9,930	12,045
Property and equipment	15	885,067	780,700
Intangible assets	15	100,049	80,071
Deferred tax assets	24	217,757	177,580
Other assets	16	10,727,954	7,661,520
Total assets		**107,952,335**	**93,469,882**
LIABILITIES AND EQUITY			
Trading liabilities	17	199,692	344,803
Deposits from banks	18	4,244,689	3,504,446
Deposits from customers	19	64,219,035	58,263,128
Obligations under repurchase agreements	9	8,490,891	5,981,675
Funds borrowed	20	8,132,349	8,952,996
Debt securities issued	21	2,372,748	493,000
Subordinated liabilities	22	1,630,188	-
Other liabilities and provisions	23	5,544,112	5,443,694
Current tax liabilities	24	172,808	22,898
Deferred tax liabilities	24	6,678	3,667
Total liabilities		**95,013,190**	**83,010,307**
Share capital	26	3,300,146	3,300,146
Share premium		724,320	724,320
Fair value reserves of available-for-sale financial assets	26	873,807	(13,977)
Translation reserve		67,062	73,050
Legal reserves	26	752,778	628,383
Retained earnings		6,756,136	5,325,432
Total equity attributable to equity holders of the Bank		**12,474,249**	**10,037,354**
Non-controlling interest	26	**464,896**	**422,221**
Total equity		**12,939,145**	**10,459,575**
Total liabilities and equity		**107,952,335**	**93,469,882**
Commitments and contingencies	31	**28,608,002**	**25,638,138**

The notes on pages 8 to 71 are an integral part of these consolidated financial statements.

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries
Consolidated Statement of Comprehensive Income
For the Year Ended 31 December 2012
(Currency – Thousands of Turkish Lira (TL))

	Notes	31 December 2012	31 December 2011
Interest income			
Interest on loans and receivables		7,095,923	5,032,793
Interest on securities		1,630,108	1,426,694
Interest on deposits at banks		64,204	65,604
Interest on money market placements		3,576	4,144
Other interest income		30,078	52,172
Total interest income		**8,823,889**	**6,581,407**
Interest expense			
Interest on deposits		(3,935,640)	(2,941,792)
Interest on money market deposits		(350,006)	(483,234)
Interest on funds borrowed		(178,898)	(155,602)
Interest expense on securities issued		(173,243)	
Other interest expense		(96,348)	(71,640)
Total interest expense		**(4,734,135)**	**(3,652,268)**
Net interest income		**4,089,754**	**2,929,139**
Fee and commission income		683,183	749,412
Fee and commission expense		(265,569)	(188,043)
Net fee and commission income		**417,614**	**561,369**
Income/Loss from equity accounted investments		**854**	**(221)**
Other operating income			
Net trading income	8	234,436	64,060
Net foreign exchange gains		113,111	(12,152)
Other income	28	900,214	823,118
Total other operating income		**1,247,761**	**875,026**
Other operating expense			
Salaries and employee benefits	29	(1,208,324)	(1,063,373)
Provision for possible loan losses, net of recoveries		(534,780)	202,452
Depreciation and amortisation	15	(130,005)	(122,716)
Taxes other than on income		(108,728)	(68,390)
Other expenses	30	(1,771,959)	(1,376,604)
Total other operating expenses		**(3,753,796)**	**(2,428,631)**
Profit before income tax		**2,002,187**	**1,936,682**
Income tax expense	24	(408,085)	(341,962)
Profit for the year		**1,594,102**	**1,594,720**

The notes on pages 8 to 71 are an integral part of these consolidated financial statements.

(Currency – Thousands of Turkish Lira (TL))

	Notes	31 December 2012	31 December 2011
Other comprehensive income, net of income tax			
Foreign currency translation differences for foreign operations		(6,641)	28,259
Change in fair value of available for sale financial assets		1,037,620	(355,398)
Change in fair value of available for sale financial assets transferred to profit or loss	26	(33,821)	(156,420)
Income tax on other comprehensive income	24	(82,572)	93,621
Other comprehensive income for the year, net of income tax		**914,586**	**(389,938)**
Total comprehensive income for the year		**2,508,688**	**1,204,782**
Profit attributable to:			
Equity holders of the Bank		1,592,099	1,530,115
Non-controlling interest	26	2,003	64,605
Profit for the year		**1,594,102**	**1,594,720**
Total comprehensive income attributable to:			
Equity holders of the Bank		2,473,895	1,132,757
Non-controlling interest		34,793	72,025
Total comprehensive income for the year		**2,508,688**	**1,204,782**
Earnings per 100 shares on profit for the year (full TL)		0.6376	0.6379

The notes on pages 8 to 71 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 2012
(Currency – Thousands of Turkish Lira (TL))

		Attributable to equity holders of the Bank								
	Notes	**Share capital**	**Share premium**	**Fair value reserves**	**Revaluation surplus**	**Translation reserve**	**Legal reserves**	**Retained earnings**	**Non-controlling interest**	**Total equity**
Balances at 1 January 2011		**3,300,146**	**724,320**	**408,813**	**-**	**47,618**	**507,887**	**3,950,127**	**292,164**	**9,231,075**
Total comprehensive income for the year										
Profit for the year		-	-	-	-	-	-	1,530,115	64,605	**1,594,720**
Other comprehensive income										
Foreign currency translation differences		-	-	-	-	25,432	-	-	2,827	**28,259**
Net changes in fair value of available for sale financial assets, net of tax	26	-	-	(290,375)	-	-	-	-	4,593	**(285,782)**
Net losses on available for sale financial assets transferred to profit or loss, net of tax	26	-	-	(132,415)	-	-	-	-	-	**(132,415)**
Total other comprehensive income		**-**	**-**	**(422,790)**	**-**	**25,432**	**-**	**-**	**7,420**	**(389,938)**
Total comprehensive income for the year		**-**	**-**	**(422,790)**	**-**	**25,432**	**-**	**1,530,115**	**72,025**	**1,204,782**
Transactions with owners, recorded directly in equity										
Share capital increase		-	-	-	-	-	-	-	54,672	**54,672**
Effect of unconsolidated subsidiary		-	-	-	-	-	-	-	6,567	**6,567**
Transfer to reserves		-	-	-	-	-	120,496	(120,496)	-	**-**
Dividends paid		-	-	-	-	-	-	(34,314)	(65)	**(34,379)**
Other		-	-	-	-	-	-	-	(3,142)	**(3,142)**
Total contributions by and distributions to owners		**-**	**-**	**-**	**-**	**-**	**120,496**	**(154,810)**	**58,032**	**23,718**
Balances at 31 December 2011		**3,300,146**	**724,320**	**(13,977)**	**-**	**73,050**	**628,383**	**5,325,432**	**422,221**	**10,459,575**

The notes on pages 8 to 71 are an integral part of these consolidated financial statements.

(Currency – Thousands of Turkish Lira (TL))

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

Türkiye Vakıflar Bankası Türk Anonim Ortaklığı and Its Subsidiaries
Consolidated Statement of Cash Flows
For the Year Ended 31 December 2012
(Currency – Thousands of Turkish Lira (TL))

	Notes	31 December 2012	31 December 2011
Cash flows from operating activities:			
Profit for the year		1,594,102	1,594,720
Adjustments for:			
Income tax expense	24	408,085	341,962
Provision for possible loan losses, net of recoveries		534,780	(202,452)
Depreciation and amortization	15	130,005	122,716
Provision for short term employee benefits	29	190,437	98,978
Provision for retirement pay liability and unused vacations	29	60,537	28,191
Unearned premium reserve	28	71,972	(35,414)
Change in provision for outstanding claims	30	19,909	(33,863)
Long term insurance contracts	30	69,956	9,777
Other provision expenses	30	5,440	42,069
Net interest income		(4,089,754)	(2,929,139)
Income from associates accounted for using the equity method		(854)	221
Income from sale of fixed assets		(33,130)	(104,517)
Currency translation differences		(6,641)	28,259
Other non-cash adjustments		(309,047)	1,143,259
		(1,354,203)	**104,767**
Changes in operating assets and liabilities:			
Loans and advances to banks		(761,955)	(353,373)
Reserve deposits		(3,839,086)	(2,846,587)
Financial assets at fair value through profit or loss		85,323	(163,263)
Loans and advances to customers		(11,474,094)	(13,532,974)
Other assets		759,012	(543,616)
Deposits from banks		742,064	1,503,826
Deposits from customers		5,987,595	12,239,969
Obligation under repurchase agreements		2,510,758	(2,227,360)
Other liabilities and provisions		(501,229)	1,140,549
		(6,491,612)	**(4,678,062)**
Interest received		8,991,327	6,594,430
Interest paid		(4,721,220)	(3,570,689)
Income taxes paid	16,24	(374,977)	(406,298)
Cash used in operating activities		**(3,950,685)**	**(2,060,619)**
Cash flows from investing activities:			
Dividends received		7,647	7,682
Acquisition of property and equipment	15	(131,331)	(119,104)
Proceeds from the sale of property and equipment		47,773	160,298
Acquisition of intangible assets	15	(31,961)	(32,008)
Acquisition of investment securities		(1,628,786)	(5,367,267)
Proceeds from sale of investment securities		2,847,557	4,459,106
Cash (used in)/provided by investing activities		**1,110,899**	**(891,293)**
Cash flows from financing activities:			
Proceeds from issue of subordinated liabilities	22	1,627,871	-
Proceeds from issue of debt securities	21	4,465,513	476,493
Repayments of debt securities		(2,620,966)	-
Proceeds from share capital increase		-	54,672
Repayments of funds borrowed		5,362,482	6,108,011
Proceeds from funds borrowed		(5,585,632)	(5,787,466)
Dividends paid		(37,507)	(34,379)
Cash provided by financing activities		**3,211,761**	**817,331**
Effect of foreign exchange rate fluctuations on cash and cash equivalents		(1,666)	(2,456)
Net increase/(decrease) in cash and cash equivalents		370,309	(2,137,037)
Cash and cash equivalents at the beginning of the year	7	5,006,441	7,143,478
Cash and cash equivalents at the end of the year	7	**5,376,750**	**5,006,441**

The notes on pages 8 to 71 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements:

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 741 domestic branches and 3 foreign branches in New York, Bahrain and Iraq (31 December 2011: 677 domestic, 3 foreign, in total 680 branches). Additionally, the Bank has control over a bank located in Austria. As at 31 December 2012 the Bank has 13,463 (31 December 2011: 12,222) employees. The Bank's head office is located at Levent Mahallesi, Hacı Adil Yolu, Çayır Çimen Sokak, No:2, 1.Levent Beşiktaş- İstanbul.

(b) Ownership

The shareholder having control over the shares of the Bank is the General Directorate of the Foundations having 43.00% of outstanding shares of the Bank. Another organization holding shares in the Bank is Vakıfbank Memur ve Hizmetlileri Emekli ve Sağlık Yardım Sandığı Vakfı (the pension fund of the employees of the Bank), having 16.10% of outstanding shares of the Bank. 25.20% of the Bank's outstanding shares are publicly traded in Istanbul Stock Exchange.

(Currency – Thousands of Turkish Lira (TL))

1. Overview of the Bank *(continued)*

(b) Ownership *(continued)*

As at 31 December 2012 and 2011, 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 2012 and, the Bank's shareholders' structure was as disclosed below:

Shareholders	Number of the Shares (100 units)	Nominal Value of the Shares – Thousands of TL	Share Percentage (%)
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)	386.224.785	386,225	15.45
Other appendant foundations (Group B)	3.157.818	3,157	0.13
Other registered foundations (Group B)	1.453.084	1,453	0.06
Other real persons and legal entities (Group C)	1.560.320	1,560	0.06
Publicly traded (Group D)	629.992.687	629,993	25.20
Total	**2.500.000.000**	**2,500,000**	**100.00**

2. Basis of preparation

(a) Statement of compliance

The Bank and its consolidated subsidiaries located in Turkey maintain their books of account and prepare their statutory financial statements in TL, the functional currency of the Bank and the related subsidiaries, in accordance with the accounting practices as promulgated by the Banking Regulation and Supervision Agency ("BRSA"), the Capital Markets Board of Turkey ("CMBT"), the Republic of Turkey Prime Ministry Undersecretariat of Treasury ("the Turkish Treasury"), the Turkish Commercial Code, and the Turkish Tax Legislation. The Bank's foreign subsidiaries maintain their books of account and prepare their statutory financial statements in US Dollar or in Euro in accordance with the regulations of the countries they operate in.

The accompanying consolidated financial statements of the Bank and its subsidiaries (collectively "the Group") are based on the statutory records with adjustments and reclassifications for the purpose of fair presentation in accordance with International Financial Reporting Standards ("IFRSs") as issued by the International Accounting Standards Board ("IASB"). The Group adopted all IFRSs, which were mandatory as at 31 December 2012.

The accompanying consolidated financial statements were authorized by the Bank management on 14 March 2013.

(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.

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 estimates 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.

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.

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 period, 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).

3. Significant accounting policies

(a) Basis of consolidation

The accompanying consolidated financial statements include the accounts of the parent company, the Bank, its subsidiaries and associates on the basis set out in sections below. The financial statements of the entities included in the consolidation have been prepared as at the date of these consolidated financial statements.

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

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 associate.

Special purpose entities

Special purpose entities are the entities that are created to accomplish a narrow and well defined objective such as the securitization of particular assets, or the execution of a specific borrowing or lending transaction. Special purpose entities are consolidated when the substance of the relationship between the Group and the special purpose entity indicates that the special purpose entity is controlled by the Group.

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.

3. Significant accounting policies *(continued)*

(b) Foreign currency *(continued)*

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.

(c) Interest

Interest income and expense are recognised in the consolidated statement of 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 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 *(t)*) 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.

3. Significant accounting policies *(continued)*

(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.

(g) Lease payments made

Payments made under operating leases are recognised in the consolidated statement of comprehensive income on a straight-line basis over the term of the lease.

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

(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.

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

3. Significant accounting policies *(continued)*

(h) Income taxes *(continued)*

Corporate tax *(continued)*

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.

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.

3. Significant accounting policies *(continued)*

(h) Income taxes *(continued)*

Investment incentives *(continued)*

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. Accordingly, the Group's subsidiary operating in finance lease sector have taken these effects into account in corporate tax declaration for the year 2011.

(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.

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.

3. Significant accounting policies *(continued)*

(i) Financial instruments

Classification *(continued)*

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.

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.

3. Significant accounting policies *(continued)*

(i) Financial instruments *(continued)*

Gains and losses on subsequent measurement *(continued)*

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.

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 3 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.

3. Significant accounting policies *(continued)*

(i) Financial instruments *(continued)*

Specific instruments *(continued)*

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;

(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.

3. Significant accounting policies *(continued)*

(i) Financial instruments *(continued)*

Impairment of financial assets *(continued)*

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.

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".

(Currency – Thousands of Turkish Lira (TL))

3. Significant accounting policies *(continued)*

(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

(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 as particular asset or a group of assets, then that asset's recoverable amount is estimated.

3. Significant accounting policies *(continued)*

(n) Impairment of non-financial assets *(continued)*

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.

(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.

3. Significant accounting policies *(continued)*

(p) Employee benefits *(continued)*

Pension and other post-retirement obligations *(continued)*

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.

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 2013 which is prepared in accordance with IAS 19 – *Employee Benefits*, 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.

3. Significant accounting policies *(continued)*

(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.

(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.

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 There 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 insuree. 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.

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.

'Receivable from pension investment funds for investment management fees' are the fees charged to the pension funds for the administration and portfolio management services provided. 'Receivables from the clearing house on behalf of the participants' are the receivables from the clearing house on pension fund basis against the contributions of the participants. The same amount is also recorded as payables to participants for the funds acquired against their contributions under the 'individual pension system payables'.

In addition to the 'payables to participants' account, mentioned in the previous paragraph, *individual pension system payables* also includes participants' temporary accounts, and payables to individual pension agencies. The temporary account of participants includes the contributions of participants that have not yet been invested. Individual pension system payables are presented under other liabilities and provisions in the accompanying consolidated financial statements.

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.

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 effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

IFRS 9 Financial Instruments

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

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

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

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

IFRS 9 is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted.

3. Significant accounting policies *(continued)*

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

Amendments to IFRS 7 and IAS 32 on offsetting financial assets and financial liabilities

Disclosures – Offsetting Financial Assets and Financial Liabilities (amendments to IFRS 7) introduces disclosures about the impact of netting arrangements on an entity's financial position. The amendments are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. Based on the new disclosure requirements the Group will have to provide information about what amounts have been offset in the statement of financial position and the nature and extent of rights of set-off under master netting arrangements or similar arrangements.

Offsetting Financial Assets and Financial Liabilities (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. Earlier application is permitted.

Based on our initial assessment, the Group is not expecting a significant impact from the adoption of the amendments to IAS 32. However, the adoption of the amendments to IFRS 7 requires more extensive disclosures about rights of set-off.

IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities

IFRS 10 introduces a single control model to determine whether an investee should be consolidated. As a result, the Group may need to change its consolidation conclusion in respect of its investees, which may lead to changes in the current accounting for these investees (see Notes 3(a)).

IFRS 11 is not expected to have any impact on the Group because the Group does not have interests in joint ventures. IFRS 12 brings together into a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. It requires the disclosure of information about the nature, risks and financial effects of these interests. The Group is currently assessing the disclosure requirements for interests in subsidiaries and unconsolidated structured entities in comparison with the existing disclosures.

These standards are effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

IFRS 13 Fair Value Measurement

IFRS 13 provides a single source of guidance on how fair value is measured, and replaces the fair value measurement guidance that is currently dispersed throughout IFRS. Subject to limited exceptions, IFRS 13 is applied when fair value measurements or disclosures are required or permitted by other IFRSs. The Group is currently reviewing its methodologies for determining fair values. Although many of the IFRS 13 disclosure requirements regarding financial assets and financial liabilities are already required, the adoption of IFRS 13 will require the Group to provide additional disclosures. These include fair value hierarchy disclosures for non-financial assets/liabilities and disclosures on fair value measurements that are categorised in Level 3. IFRS 13 is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

IAS 19 Employee Benefits

IAS 19 (2011) changes the definition of short-term and other long-term employee benefits to clarify the distinction between the two. For defined benefit plans, removal of the accounting policy choice for recognition of actuarial gains and losses is not expected to have any impact on the Group. However, the Group may need to assess the impact of the change in measurement principles of the expected return on plan assets. IAS 19 (2011) is effective for annual periods beginning on or after 1 January 2013 with early adoption permitted.

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.

(Currency – Thousands of Turkish Lira (TL))

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 2012	**31 December 2011**	**31 December 2012**	**31 December 2011**
Individually impaired	2,925,315	2,220,838	70,433	51,693
Specific impairment	(2,299,686)	(1,772,065)	(51,069)	(41,678)
Carrying amount	**625,629**	**448,773**	**19,364**	**10,015**
Past due but not impaired	195,990	103,730	19,662	297,941
Carrying amount	**195,990**	**103,730**	**19,662**	**297,941**
Neither past due nor impaired	68,878,575	58,264,542	43,604,933	39,181,193
Loans with renegotiated terms	565,451	527,579	-	-
Carrying amount	**69,444,026**	**58,792,121**	**43,604,933**	**39,181,193**
Collective impairment	(438,762)	(337,422)	-	-
Total carrying amount	**69,826,883**	**59,007,202**	**43,643,959**	**39,489,149**

As at 31 December 2012 and 2011, the Group has no allowance for loans and advances to banks and investment securities.

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Sectoral distribution of the performing loans and advances to customers

	31 December 2012		31 December 2011	
	Amount	**%**	**Amount**	**%**
Consumer loans	21,568,856	30.98	19,261,452	32.71
Mortgage loans	*10,283,389*	*14.77*	*8,809,987*	*14.96*
General purpose loans	*5,397,477*	*7.75*	*4,565,670*	*7.75*
Overdraft checking accounts	*493,103*	*0.71*	*770,295*	*1.31*
Auto loans	*904,927*	*1.30*	*369,697*	*0.63*
Other consumer loans	*4,489,960*	*6.45*	*4,745,803*	*8.06*
Manufacturing	11,027,111	15.83	11,138,086	18.91
Wholesale and retail trade	9,639,881	13.84	6,895,364	11.71
Transportation and telecommunication	4,726,689	6.79	3,568,372	6.06
Construction	4,908,520	7.05	3,716,712	6.31
Credit cards	3,214,767	4.62	2,015,928	3.42
Hotel, food and beverage services	1,395,202	2.00	1,324,663	2.25
Financial institutions	1,449,100	2.08	1,040,703	1.77
Agriculture and stockbreeding	1,584,045	2.27	833,863	1.42
Health and social services	524,067	0.75	326,357	0.55
Others	9,601,778	13.79	8,774,351	14.89
Total performing loans and advances to customers	**69,640,016**	**100.00**	**58,895,851**	**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.

(Currency – Thousands of Turkish Lira (TL))

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 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**

31 December 2011	**Loans and advances to customers**		**Other assets**	
	Gross	**Net**	**Gross (*)**	**Net (*)**
Grade 3 : Individually Impaired	157,613	116,458	25,911	10,015
Grade 4 : Individually Impaired	176,437	28,222	-	-
Grade 5 : Individually Impaired	1,886,788	304,093	25,782	-
Total	**2,220,838**	**448,773**	**51,693**	**10,015**

(*) 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 2012 and 2011.

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 2012**	**31 December 2011**
Secured loans:	50,544,148	41,319,100
Secured by mortgages	*19,751,313*	*19,668,842*
Secured by cash collateral	*587,270*	*461,264*
Guarantees issued by financial institutions	*273,443*	*386,275*
Secured by government institutions or government securities	*172,801*	*219,080*
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	*29,759,321*	*20,583,639*
Unsecured loans	19,095,868	17,576,751
Total performing loans and advances to customers	**69,640,016**	**58,895,851**

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(b) Credit risk *(continued)*

Non-cash loans (financial guarantee contracts)	**31 December 2012**	**31 December 2011**
Secured loans:	7,669,050	6,492,300
Secured by mortgages	*669,759*	*1,067,729*
Secured by cash collateral	*123,436*	*103,222*
Guarantees issued by financial institutions	*7,901*	*7,079*
Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	*6,867,954*	*5,314,270*
Unsecured loans	9,581,987	9,149,499
Total non-cash loans	**17,251,037**	**15,641,799**

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

	31 December 2012	**31 December 2011**
Cash collateral (*)	-	-
Mortgages	758,704	650,387
Promissory notes (*)	172	26,479
Others (**)	2,166,439	1,543,972
Total	**2,925,315**	**2,220,838**

(*) 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 amount is shown as zero in the table.

(*)Sureties obtained for impaired loans are presented in this raw to the extent that the amount does not 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:

	31 December 2012		**31 December 2011**	
Sectoral concentration	**Amount**	**%**	**Amount**	**%**
Consumer loans	479,133	16.38	438,956	19.76
Construction	290,347	9.93	274,988	12.38
Textile	291,437	9.96	270,657	12.19
Food	171,287	5.86	214,453	9.66
Service sector	112,017	3.83	40,802	1.84
Agriculture and stockbreeding	37,563	1.28	47,727	2.15
Metal and metal products	34,150	1.17	2,188	0.1
Durable consumer goods	10,027	0.34	10,554	0.48
Financial institutions	8,827	0.3	11,581	0.52
Others	1,490,527	50.95	908,932	40.92
Total non-performing loans and advances to customers	**2,925,315**	**100.00**	**2,220,838**	**100.00**

	31 December 2012		**31 December 2011**	
Geographical concentration	**Amount**	**%**	**Amount**	**%**
Turkey	2,912,302	99.56	2,204,486	99.26
Austria	12,908	0.44	16,208	0.73
Other	105	0.00	144	0.01
Total non-performing loans and advances to customers	**2,925,315**	**100.00**	**2,220,838**	**100.00**

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(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:

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**
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	2,432,767	86,607	71,368	111,521	75,710	3,437,580
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**

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(c) Liquidity risk *(continued)*

31 December 2011	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Carrying amount
Cash and cash equivalents	4,608,340	548,185	144,117	108	-	-	5,300,750
Financial assets at fair value through profit or loss	7,275	77,968	30,431	32,212	193,680	20,097	361,663
Loans and advances to banks	-	162,408	214,808	186,942	12,583	-	576,741
Loans and advances to customers	111,351	3,960,861	2,984,971	13,134,433	29,533,860	9,281,726	59,007,202
Investment securities	189,449	125,525	259,893	834,978	10,643,583	7,458,182	19,511,610
Other assets	4,202,804	580,490	164,197	207,411	1,070,165	2,901	6,227,968
Total assets	**9,119,219**	**5,455,437**	**3,798,417**	**14,396,084**	**41,453,871**	**16,762,906**	**90,985,934**
Deposits from banks	34,116	2,834,197	603,394	32,739	-	-	3,504,446
Deposits from customers	9,149,183	33,341,559	12,506,547	2,866,843	395,629	3,367	58,263,128
Obligations under repurchase agreements	-	3,957,909	1,190,935	832,831	-	-	5,981,675
Funds borrowed	-	322,052	2,050,694	2,726,235	2,166,794	1,687,221	8,952,996
Debt securities issued	-	-	493,000	-	-	-	493,000
Current tax liabilities	-	-	-	22,898	-	-	22,898
Other liabilities and provisions	566,955	1,796,269	264,758	228,046	59,031	936,965	3,852,024
Total liabilities	**9,642,248**	**42,359,992**	**17,109,328**	**6,709,592**	**2,621,454**	**2,627,553**	**81,070,167**
Net	**(523,029)**	**(36,904,555)**	**(13,310,911)**	**7,686,492**	**38,832,417**	**14,135,353**	**9,915,767**

Residual contractual maturities of the financial liabilities

31 December 2012	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Deposits from banks	4,244,689	**4,255,512**	15,263	2,986,648	886,791	366,810	-	-
Deposits from customers	64,219,035	**64,608,588**	11,046,766	33,958,990	15,245,187	3,730,789	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	**8,588,338**	-	288,858	381,626	4,315,730	2,239,562	1,362,562
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	3,437,580	**3,437,580**	659,607	2,432,767	86,607	71,368	111,521	75,710
Total	**92,527,480**	**95,611,562**	**11,721,636**	**46,859,459**	**16,998,714**	**11,107,321**	**4,864,233**	**4,060,199**
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

31 December 2011	Carrying amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Deposits from banks	3,504,446	**3,514,388**	34,116	2,836,581	609,606	33,863	222	-
Deposits from customers	58,263,128	**58,689,744**	9,149,183	33,550,194	12,577,355	2,964,562	444,217	4,233
Obligations under repurchase agreements	5,981,675	**5,996,658**	-	3,962,420	1,195,356	838,882	-	-
Funds borrowed	8,952,996	**9,662,628**	-	369,120	2,109,679	2,809,985	2,392,287	1,981,557
Debt securities issued	493,000	**496,581**	-	-	496,581	-	-	-
Other financial liabilities	3,852,024	**3,852,024**	566,955	1,796,269	264,758	228,046	59,031	936,965
Total	**81,047,269**	**82,212,023**	**9,750,254**	**42,514,584**	**17,253,335**	**6,875,338**	**2,895,757**	**2,922,755**
Non-Cash Loans	15,641,799	**15,641,799**	9,552,417	1,027,359	770,703	2,442,300	1,189,150	659,870

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.

(Currency – Thousands of Turkish Lira (TL))

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 year ended 31 December 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 2012			31 December 2011		
	Average	**Highest**	**Lowest**	**Average**	**Highest**	**Lowest**
Interest rate risk	89,337	134,503	20,406	145,713	160,160	138,107
Common share risk	1,989	2,512	1,284	3,079	3,930	2,143
Currency risk	43,272	56,347	36,504	21,190	31,594	15,366
Option risk	266	669	-	690	1,707	40
Counter party risk	2,637	2,808	2,465	-	-	-
Total value at risk	**1,702,270**	**2,171,075**	**810,137**	**2,133,397**	**2,250,413**	**2,041,100**

(Currency – Thousands of Turkish Lira (TL))

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:

31 December 2012	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Carrying amount
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**
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
Other liabilities and provisions	13,010	4,633	3,847	102,492	75,710	3,237,888	3,437,580
Total liabilities	**46,053,210**	**20,002,473**	**8,869,787**	**2,209,983**	**1,092,110**	**14,299,917**	**92,527,480**
Net	**(17,202,488)**	**(1,598,233)**	**5,859,099**	**15,572,896**	**9,677,524**	**407,808**	**12,716,606**

31 December 2011	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	Carrying amount
Cash and cash equivalents	516,075	144,117	108	-	-	4,640,450	5,300,750
Loans and advances to banks	97,956	246,271	232,136	378	-	-	576,741
Loans and advances to customers	16,344,581	8,518,849	15,601,124	12,364,771	6,066,526	111,351	59,007,202
Investment securities	4,610,316	3,018,327	2,713,451	4,250,258	4,729,809	189,449	19,511,610
Other assets	5,718	583	83,905	37,812	870,753	5,229,197	6,227,968
Total assets	**21,574,646**	**11,928,147**	**18,630,724**	**16,653,219**	**11,667,088**	**10,170,447**	**90,624,271**
Deposits from banks	2,834,197	603,394	32,739	-	-	34,116	3,504,446
Deposits from customers	33,341,559	12,506,547	2,866,843	395,629	3,367	9,149,183	58,263,128
Obligations under repurchase agreements	3,957,909	1,247,962	775,804	-	-	-	5,981,675
Funds borrowed	447,889	6,066,528	2,321,113	94,886	22,580	-	8,952,996
Debt securities issued	-	493,000	-	-	-	-	493,000
Other liabilities and provisions	47,609	79,418	148,272	10,303	65,433	3,500,989	3,852,024
Total liabilities	**40,629,163**	**20,996,849**	**6,144,771**	**500,818**	**91,380**	**12,684,288**	**81,047,269**
Net	**(19,054,517)**	**(9,068,702)**	**12,485,953**	**16,152,401**	**11,575,708**	**(2,513,841)**	**9,577,002**

(Currency – Thousands of Turkish Lira (TL))

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 2012 and 2011:

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	1.4	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	6.00	-	-
Funds borrowed	2.09	1.45	9.37

31 December 2011	**US Dollar %**	**EUR %**	**TL %**
Cash and cash equivalents	0.97	1.29	10.84
Financial assets at fair value through profit or loss	8.50	5.47	10.12
Loans and advances to banks	3.14	-	10.76
Loans and advances to customers	5.62	6,61	14.89
Investment securities	7.15	5.61	9.11
Deposits from banks	1.93	2.56	11.33
Deposits from customers	2.23	3.37	9.62
Obligations under repurchase agreements	1.98	1.60	8.39
Debt securities issued	-	-	8.70
Funds borrowed	3.03	2.89	10.88

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 2012 and effect on net interest income of floating rate non-trading financial assets and financial liabilities held at 31 December 2012. 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 2012.

As at 31 December 2012, 100 bp increase in interest rates would have an effect on the total comprehensive income, without tax effects, of the Bank amounting to TL 303,931 (31 December 2011: TL 125,716), whereas 100 bp decrease in interest rates would have an effect on the total comprehensive income, without tax effects, of the Bank amounting to TL (299,148) (31 December 2011: TL (123,231)).

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.

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(d) Market risk *(continued)*

Exposure to interest rate risk – non-trading portfolios

Credit spread risk (not relating to changes in the obligor/issuer's credit standing) on debt securities held by the Treasury Department and equity price risk is subject to regular monitoring by the Risk Management Department, but is not currently significant in relation to the overall results and financial position of the Group.

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 2012 and 2011 due to a reasonably possible change in equity indices, with all other variables held constant, is as follows:

	Change in index	31 December 2012	31 December 2011
ISE – 100	10%	8,252	13,210

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 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**

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(d) Market risk *(continued)*

31 December 2011	US Dollar	EUR	Other currencies	Total
Cash and cash equivalents	1,490,484	1,180,094	78,422	2,749,000
Financial assets at fair value through profit or loss	125,882	5,285	523	131,690
Loans and advances to banks	28,793	-	146	28,939
Loans and advances to customers	12,573,509	7,332,054	48,344	19,953,907
Investment securities	3,531,130	848,599	-	4,379,729
Other assets	3,951,079	150,923	534,117	4,636,119
Total foreign currency denominated monetary assets	**21,700,877**	**9,516,955**	**661,552**	**31,879,384**
Deposits from banks	2,269,308	452,461	59,270	2,781,039
Deposits from customers	9,782,405	5,040,834	60,889	14,884,128
Obligations under repurchase agreements	2,415,494	545,610	-	2,961,104
Funds borrowed	4,556,536	3,980,969	36,809	8,574,314
Other liabilities	639,610	157,710	25,405	822,725
Total foreign currency denominated monetary liabilities	**19,663,353**	**10,177,584**	**182,373**	**30,023,310**
Net statement of financial position	**2,037,524**	**(660,629)**	**479,179**	**1,856,074**
Net off balance sheet position	**(2,087,061)**	**435,480**	**147**	**(1,651,434)**
Net long/(short) position	**(49,537)**	**(225,149)**	**479,326**	**204,640**

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 2012 and 2011 would affect consolidated total comprehensive income and profit or loss (without tax effects) by the amounts shown below.

	31 December 2012		31 December 2011	
	Profit or loss	**Total comprehensive income**	**Profit or loss**	**Total comprehensive income**
US Dollar	(9,945)	37,202	(17,599)	(7,004)
EUR	(7,340)	21,827	(23,208)	(11,231)
Other currencies	(496)	(496)	53,207	53,207
Total, net	**(17,781)**	**58,533**	**12,400**	**34,972**

10 percent revaluation of the TL against the following currencies as at and for the year ended 31 December 2012 and 2011 would affect consolidated total comprehensive income and profit or loss (without tax effects) by the amounts shown below.

	31 December 2012		31 December 2011	
	Profit or loss	**Total comprehensive income**	**Profit or loss**	**Total comprehensive income**
US Dollar	11,580	(35,567)	19,666	9,071
EUR	7,340	(21,827)	23,208	11,231
Other currencies	1,250	1,250	(52,453)	(52,453)
Total, net	**20,170**	**(56,144)**	**(9,579)**	**(32,151)**

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

(Currency – Thousands of Turkish Lira (TL))

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 69,710,816 (31 December 2011: TL 59,039,961), whereas the carrying amount is TL 69,640,016 (31 December 2011: TL 58,895,851) in the accompanying consolidated statement of financial position as at 31 December 2012.

Fair value of held-to-maturity investment securities is TL 4,476,252 (31 December 2011: TL 6,101,707), whereas the carrying amount is TL 4,261,060 (31 December 2011: TL 5,979,238) in the accompanying consolidated statement of financial position as at 31 December 2012.

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

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)**

(Currency – Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

(d) Market risk *(continued)*

31 December 2011	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit/loss				
Debt securities	151,914	28,336	-	**180,250**
Derivative financial assets held for trading purpose	-	174,138	-	**174,138**
Investment funds	5,144	-	-	**5,144**
Equity securities	2,104	-	27	**2,131**
Investment securities – available-for-sale				
Debt securities	12,061,830	1,281,093	-	**13,342,923**
Equity securities	122,148	-	30,824	**152,972**
Total financial assets	**12,343,140**	**1,483,567**	**30,851**	**13,857,558**
Financial liabilities held for trading purpose				
Derivative financial liabilities held for trading purpose	-	(344,803)	-	**(344,803)**
Total financial liabilities	**-**	**(344,803)**	**-**	**(344,803)**

The reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy as at and for the years ended 31 December 2012 and 2011 are as follows:

	31 December 2012	31 December 2011
Balance at the beginning of the period	30,851	31,428
Total gains or losses for the period recognized in profit or loss	-	-
Total gains or losses for the period recognized in other comprehensive income	11,825	(577)
Balance at the end of the period	**42,676**	**30,851**

(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 2012, value of operational risk amounted to TL 8,564,338 (31 December 2011: TL 7,608,913).

(Currency – Thousands of Turkish Lira (TL))

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 2012 and 2011 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 2012 and 2011 is as follows:

	31 December 2012	31 December 2011
Tier 1 capital	10,953,352	9,542,126
Tier 2 capital	2,936,593	626,975
Deductions from capital	(294,438)	(273,836)
Total regulatory capital	13,595,507	9,895,265
Risk-weighted assets	77,990,988	65,189,906
Value at market risk	810,138	2,041,100
Operational risk	8,564,338	7,608,913
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	15.56	13.22
Total tier 1 capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	12.54	12.75

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 contact, 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 theses risks are as follows:

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

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.

(Currency – Thousands of Turkish Lira (TL))

6. Segment reporting *(continued)*

Information about operating segments

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**

(Currency – Thousands of Turkish Lira (TL))

6. Segment reporting *(continued)*

Information about operating segments *(continued)*

31 December 2011	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Operating profit	**1,143,147**	**581,148**	**413,448**	**(323,141)**	**1,814,602**	**55,414**	**14,120**	**12,611**	**45,097**	**1,941,844**	**(5,162)**	**1,936,682**
Profit before income tax	1,143,147	581,148	413,448	(323,141)	**1,814,602**	55,414	14,120	12,611	45,097	**1,941,844**	(5,162)	**1,936,682**
Income tax expense	(221,345)	(112,526)	(80,055)	62,569	**(351,357)**	8,226	339	(2,433)	(1,509)	**(346,734)**	4,772	**(341,962)**
Profit for the year	**921,802**	**468,622**	**333,393**	**(260,572)**	**1,463,245**	**63,640**	**14,459**	**10,178**	**43,588**	**1,595,110**	**(390)**	**1,594,720**

31 December 2011	Retail Banking	Corporate Banking	Investment Banking	Unallocated	Total Banking	Insurance	Leasing	Factoring	Others	Combined	Eliminations	Total
Segment assets	21,480,749	36,697,589	24,541,703	7,388,375	**90,108,416**	2,502,281	598,192	621,827	513,179	**94,343,895**	(886,058)	**93,457,837**
Investments in associates and subsidiaries	-	-	695,261	-	**695,261**	123,452	2,539	2,322	14,037	**837,611**	(825,566)	**12,045**
Total assets	**21,480,749**	**36,697,589**	**25,236,964**	**7,388,375**	**90,803,677**	**2,625,733**	**600,731**	**624,149**	**527,216**	**95,181,506**	**(1,711,624)**	**93,469,882**
Segment liabilities	35,739,379	26,495,786	15,153,698	3,143,652	**80,532,515**	2,279,910	500,321	539,367	62,868	**83,914,981**	(904,674)	**83,010,307**
Equity including non-controlling interest	-	-	-	10,271,162	**10,271,162**	345,823	100,410	84,782	464,348	**11,266,525**	(806,950)	**10,459,575**
Total liabilities and equity	**35,739,379**	**26,495,786**	**15,153,698**	**13,414,814**	**90,803,677**	**2,625,733**	**600,731**	**624,149**	**527,216**	**95,181,506**	**(1,711,624)**	**93,469,882**

(Currency – Thousands of Turkish Lira (TL))

7. Cash and cash equivalents

As at 31 December 2012 and 2011, cash and cash equivalents presented in the consolidated statement of financial position and cash flows are as follows:

	31 December 2012	31 December 2011
Cash on hand	983,077	716,036
Balances with the CBT excluding reserve deposits	3,214,344	2,155,100
Receivables from repurchase agreements *(Note 9)*	3,701	190,127
Loans and advances to banks with original maturity less than three months	2,464,934	2,238,008
Others	28,800	1,479
Total cash and cash equivalents in the consolidated statement of financial position	**6,694,856**	**5,300,750**
Accruals on cash and cash equivalents	(3,460)	(3,334)
Blocked bank deposits	(1,314,646)	(290,975)
Total cash and cash equivalents in the consolidated statement of cash flows	**5,376,750**	**5,006,441**

As at 31 December 2012, TL 1,068,000 of TL 1,314,646 blocked bank deposits (31 December 2011: TL 290,975) comprises the additional reserve requirements of Central Bank of Turkey ("CBT") as explained below. Remaining TL 246,646 blocked bank deposits consists of TL 102,366 held against the "Diversified Payment Rights" securitizations and TL 141,302 held against insurance liabilities of the Group in favour of the Turkish Treasury and TL 2,978 held against other institutions for various banking transactions respectively.

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 2012 and 2011, financial assets at fair value through profit or loss are as follows:

	31 December 2012		31 December 2011	
	Face Value	Carrying Value	Face Value	Carrying Value
Debt instruments held at fair value:				
Government bonds in TL	109,999	121,695	132,237	137,726
Bonds issued by banks	28,971	33,535	25,091	24,781
Asset-backed securities	29,900	24,994	900	831
Eurobonds issued by the Turkish Government	11,267	14,820	11,109	14,188
Corporate bonds in TL	4,700	5,255	2,580	2,724
		200,299		**180,250**
Equity and other non-fixed income instruments:				
Derivative financial instruments held for trading purposes		89,425		174,138
Investment funds		4,099		5,144
Equity shares		2,709		2,131
		96,233		**181,413**
Total financial assets at fair value through profit or loss		**296,532**		**361,663**

(Currency – Thousands of Turkish Lira (TL))

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 2012, net income from trading of financial assets (including investment securities) amounting to TL 226,789 (31 December 2011: TL 64,060) is included in "trading income, (net)"

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

	31 December 2012		31 December 2011	
	Face Value	**Carrying Value**	**Face Value**	**Carrying Value**
Deposited at Turkish Treasury for insurance operations	55,409	63,141	77,751	82,825
Deposited at Istanbul Stock Exchange for repurchase transactions	991	983	3,239	3,098
Deposited at Istanbul Stock Exchange for Capital Markets Board certifications	100	98	100	91
		64,222		**86,014**

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.

(Currency – Thousands of Turkish Lira (TL))

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.

	31 December 2012					
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
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 transactions	**8,746,278**	**959,255**	**1,183,594**	**4,043,137**	**1,393,454**	**16,325,718**

	31 December 2011					
	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Currency swaps:						
Purchases	1,643,418	1,024,415	1,656,806	-	-	**4,324,639**
Sales	1,102,384	1,085,944	1,692,000	-	-	**3,880,328**
Currency forwards:						
Purchases	912,635	112,920	276,913	-	-	**1,302,468**
Sales	906,597	112,889	276,865	-	-	**1,296,351**
Cross currency interest rate swaps:						
Purchases	-	94,000	75,200	696,758	-	**865,958**
Sales	-	77,100	52,830	587,510	-	**717,440**
Interest rate swaps:						
Purchases	-	-	20,176	141,000	675,847	**837,023**
Sales	-	-	8,246	141,000	675,847	**825,093**
Currency options:						
Purchases	123,616	-	-	-	-	**123,616**
Sales	123,616	-	-	-	-	**123,616**
Other:						
Purchases	-	-	-	-	-	-
Sales	531,155	-	-	-	-	**531,155**
Total of purchases	**2,679,669**	**1,231,335**	**2,029,095**	**837,758**	**675,847**	**7,453,704**
Total of sales	**2,663,752**	**1,275,933**	**2,029,941**	**728,510**	**675,847**	**7,373,983**
Total of transactions	**5,343,421**	**2,507,268**	**4,059,036**	**1,566,268**	**1,351,694**	**14,827,687**

(Currency – Thousands of Turkish Lira (TL))

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 2012		31 December 2011	
	Fair value of underlying assets	**Carrying Value of corresponding assets**	**Fair value of underlying assets**	**Carrying Value of corresponding assets**
Reverse repurchase agreements	3,801	3,701	198,931	190,127

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 2012		31 December 2011	
	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	3,098	2,998
Investment securities- Available for sale portfolio	7,797,052	6,213,724	3,423,082	2,803,882
Investment securities- Held to maturity portfolio	2,184,752	2,276,212	3,449,497	3,174,795
	9,982,787	**8,490,891**	**6,875,677**	**5,981,675**

Accrued interest on obligations under repurchase agreements amounted to TL 15,520 (31 December 2011: TL 17,138) 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 2012 and 2011:

	31 December 2012			31 December 2011		
	TL	**FC**	**Total**	**TL**	**FC**	**Total**
Domestic banks	191,992	84,324	276,316	303,254	201,118	504,372
Foreign banks	-	38,709	38,709	-	72,369	72,369
Total	**191,992**	**123,033**	**315,025**	**303,254**	**273,487**	**576,741**

As at 31 December 2012, loans and advances to banks with more than three months maturity from the date of acquisition include blocked accounts of TL 157,894 (31 December 2011: TL 203,359) held against the insurance liabilities of the Group in favour of the Turkish Treasury.

(Currency – Thousands of Turkish Lira (TL))

11. Loans and advances to customers

As at 31 December 2012 and 2011, outstanding loans and advances to customers comprise the followings:

	31 December 2012	31 December 2011
Corporate loans	42,544,577	35,538,099
Consumer loans	21,568,856	19,261,452
Credit cards	3,214,767	2,015,928
Loans to financial institutions	1,449,100	959,127
Finance lease receivables, net of unearned income *(Note 12)*	676,919	503,441
Factoring receivables	185,797	617,804
Total performing loans	**69,640,016**	**58,895,851**
Non-performing loans	2,925,315	2,220,838
Total gross loans	**72,565,331**	**61,116,689**
Allowance for possible loan losses from loans and advances to customers	(2,738,448)	(2,109,487)
Specific impairment	*(2,299,686)*	*(1,772,065)*
Collective impairment	*(438,762)*	*(337,422)*
Loans and advances to customers, net	**69,826,883**	**59,007,202**

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 2012	31 December 2011
Reserve at the beginning of the year	2,109,487	2,330,316
Adjustment for currency translation	(644)	2,119
Reserve for possible loan losses provided during the year	1,071,971	355,550
Recoveries	(430,467)	(574,404)
Provision, net of recoveries	2,750,347	2,113,581
Loans written off during the year	(11,899)	(4,094)
Reserve at the end of the year	**2,738,448**	**2,109,487**

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 2012	31 December 2011
Finance lease receivables, net of unearned incomes *(Note 11)*	676,919	503,441
Add: non-performing lease receivables	59,785	31,819
Total finance lease receivables	736,704	535,260
Less: allowance for possible losses on lease receivables	(27,462)	(31,819)
Finance lease receivables, net	**709,242**	**503,441**

(Currency – Thousands of Turkish Lira (TL))

12. Finance lease receivables *(continued)*

	31 December 2012	31 December 2011
Due within one year	356,267	194,465
Due between 1 and 5 years	407,351	377,295
More than five years	45,397	3,655
Finance lease receivables, gross	809,015	575,415
Unearned income	(99,773)	(71,974)
Finance lease receivables, net	**709,242**	**503,441**
Due within one year	310,152	161,629
Due between 1 and 5 years	356,394	338,307
More than five years	42,696	3,505
Finance lease receivables, net	**709,242**	**503,441**

13. Investment securities

As at 31 December 2012 and 2011, investment securities comprise the following:

	31 December 2012	31 December 2011
Available-for-sale financial assets	14,617,222	13,532,372
Held-to-maturity investment securities	4,261,060	5,979,238
Total investment securities	**18,878,282**	**19,511,610**

Available-for-sale financial assets:

	31 December 2012		31 December 2011	
	Face Value	Carrying Value	Face Value	Carrying Value
Debt and other instruments available-for-sale:				
Government bonds in TL	9,492,659	10,275,713	10,161,160	10,401,357
Eurobonds issued by the Turkish Government	3,127,544	3,854,663	2,330,223	2,575,113
Bonds issued by banks	119,048	108,887	182,295	184,382
Government bonds in foreign currencies	75,769	83,272	29,701	30,630
Treasury bills in TL	-	-	26,502	24,737
Corporate bonds	-	-	180,290	126,704
		14,322,535		**13,342,923**
Equity and other non-fixed income instruments:				
Equity shares		294,687		189,449
		294,687		**189,449**
Total available-for-sale financial assets		**14,617,222**		**13,532,372**

(Currency – Thousands of Turkish Lira (TL))

13. Investment securities *(continued)*

As at 31 December 2012 and 2011, equity shares comprised the following:

	31 December 2012	31 December 2011
Quoted investments:		
T. Sınai Kalkınma Bankası AŞ	211,440	122,148
Unquoted investments:		
Güney Ege Enerji Ltd Şti	209,738	209,738
Vakıf Pazarlama Sanayi ve Ticaret AŞ	102,797	102,797
Bayek Tedavi ve Sağlık Hizmetleri AŞ	33,954	33,954
Vakıf Gayrimenkul Ekspertiz ve Değerleme A.Ş.	20,494	17,785
İMKB Takas ve Saklama Bankası AŞ	9,600	9,600
Vakıf İnşaat Restorasyon AŞ	8,504	8,504
Roketsan Roket Sanayi ve Ticaret AŞ	7,593	7,593
Mastercard Incorporated	6,562	6,562
İzmir Enternasyonel AŞ	6,178	6,178
Visa Inc.	4,188	4,188
Others	13,087	11,545
	422,695	540,592
Impairment	(339,448)	(351,143)
Total investment securities	**294,687**	**189,449**

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

	31 December 2012		31 December 2011	
	Face Value	Carrying Value	Face Value	Carrying Value
Deposited at financial institutions for repurchase transactions	6,859,678	7,773,894	2,547,822	2,765,431
Deposited at other institutions for repurchase transactions	21,947	23,158	753,507	754,443
Deposited at Central Bank of Turkey for repurchase transactions	-	-	551,308	592,550
Deposited at Istanbul Stock Exchange for the transaction of financial instruments	-	-	270,113	283,371
Deposited at Central Bank of Turkey for interbank transactions	-	-	5,000	5,300
Deposited at Clearing Banks	-	-	11,395	11,954
Deposited at Central Bank of Turkey for foreign currency money market transactions	-	-	7,520	7,601
Deposited at Turkish Derivative Exchange	-	-	37	37
Others	247,684	286,922	162,144	165,931
		8,083,974		**4,586,618**

Held-to-maturity investment securities:

	31 December 2012			31 December 2011		
	Face Value	Carrying Value	Fair Value	Face Value	Carrying Value	Fair Value
Debt instruments:						
Government bonds in TL	3,984,475	4,198,301	4,412,937	4,267,176	4,343,224	4,241,991
Eurobonds issued by the Turkish Government	8,834	9,312	9,858	1,508,090	1,581,438	1,805,196
Certificate of deposits	53,400	53,447	53,457	54,520	54,576	54,520
Total held-to-maturity investment securities		**4,261,060**	**4,476,252**		**5,979,238**	**6,101,707**

(Currency – Thousands of Turkish Lira (TL))

13. Investment securities *(continued)*

Movements of held to maturity investment securities are as follows:

	Current period	Previous period
At the beginning of the period	**5,979,238**	**4,362,245**
Effect of change in foreign exchange rate	(114,339)	223,839
Purchases during the tear	210,825	3,102,225
Transfers to available for sale portfolio(*)	(1,474,294)	-
Disposals through sales/redemptions	(275,294)	(1,688,257)
Change in amortized cost	(65,076)	(20,814)
At the end of the period	**4,261,060**	**5,979,238**

(*) 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 these securities have been reclassified according to the related standard.

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.

In year 2011, the Bank reclassified certain investment securities that were previously classified in available-for-sale portfolio with total face value of TL 1,690,000 to its held-to-maturity investment securities portfolio at their fair values of TL 1,764,346 as at their reclassification dates. These reclassifications are presented in "purchases during the period" line in the movement table of held-to-maturity investment securities. The valuation differences of such securities amounting to TL (2,497) are recorded under equity and will be amortized through the statement of income until their maturities

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

	31 December 2012		31 December 2011	
	Face Value	Carrying Value	Face Value	Carrying Value
Deposited at Central Bank of Turkey for repurchase transactions	1,832,452	1,945,372	2,089,082	2,235,861
Deposited at Central Bank of Turkey for interbank transactions	471,648	505,059	-	-
Deposited at other institutions for repurchase transactions	231,650	239,380	54,002	56,845
Deposited at Istanbul Stock Exchange for the transaction of financial instruments	220,110	228,790	-	-
Deposited at Turkish Derivative Exchange	30	31	-	-
Deposited at financial institutions for repurchase transactions	-	-	1,032,207	1,040,178
Others	53,400	53,447	54,520	54,576
		2,972,079		**3,387,460**

14. Investment in equity participations accounted for using the equity method

As at 31 December 2012 and 2011 investments in equity participations accounted for using the equity method are as follows:

	31 December 2012	31 December 2011
Unquoted investments:		
Kıbrıs Vakıflar Bankası Ltd.	9,930	9,074
Quoted investments:		
Vakıf B Tipi Menkul Kıymetler Yatırım Ortaklığı AŞ(*)	-	2,971
	9,930	**12,045**

(*) Vakıf B Tipi Menkul Kıymetler Yatırım Ortaklığı AŞ which was accounted for using the equity method has been fully consolidated in the current period.

(Currency – Thousands of Turkish Lira (TL))

15. Property and equipment and intangible assets

Movements in property and equipment and intangible assets from 1 January to 31 December 2012 and 1 January to 31 December 2011 are as follows:

Property and equipment	1 January 2012	Currency translation difference	Transfers	Additions	Disposals	31 December 2012
Cost:						
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**
Accumulated depreciation:						
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
Cost:						
Software programmes	117,046	(38)	-	31,962	(56)	148,914
	117,046	**(38)**		**31,961**	**(56)**	**148,914**
Accumulated amortization:						
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**

(Currency – Thousands of Turkish Lira (TL))

15. Property and equipment and intangible assets *(continued)*

Property and equipment	1 January 2011	Currency translation difference	Additions	Disposals	31 December 2011
Cost:					
Land and buildings	843,129	605	14,020	(87,481)	770,273
Motor vehicles	34,736	6	24,124	(1,480)	57,386
Furniture, office equipment and leasehold improvements	499,676	295	44,121	(13,360)	530,732
Other tangibles	250,842	-	38,352	(4,563)	284,631
	1,628,383	**906**	**120,617**	**(106,884)**	**1,643,022**
Accumulated depreciation:					
Land and buildings	276,110	409	21,367	(31,639)	266,247
Motor vehicles	24,597	6	6,866	(1,309)	30,160
Furniture, office equipment and leasehold improvements	358,726	230	56,412	(12,290)	403,078
Other tangibles	138,652	-	28,537	(4,352)	162,837
	798,085	**645**	**113,182**	**(49,590)**	**862,322**
Net book value	**830,298**				**780,700**

Intangible assets	1 January 2011	Currency translation difference	Additions	Disposals	31 December 2011
Cost:					
Software programmes	84,873	165	32,008	-	117,046
	84,873	**165**	**32,008**	**-**	**117,046**
Accumulated amortization:					
Software programmes	27,280	161	9,534	-	36,975
	27,280	**161**	**9,534**	**-**	**36,975**
Net book value	**57,593**				**80,071**

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

(Currency – Thousands of Turkish Lira (TL))

16. Other assets

	31 December 2012	31 December 2011
Reserve deposit at Central Bank of Turkey	8,108,813	4,269,727
Assets held for resale	627,109	550,578
Receivables from reinsurance activities	482,067	446,440
Prepaid expenses	412,840	399,629
Receivables from credit card payments	387,146	392,479
Receivables from insurance activities	272,071	265,018
Collaterals for derivative financial instruments	134,520	20,177
Deferred acquisition costs for insurance contracts, gross	77,015	79,501
Receivables from term sales of fixed assets	47,410	103,778
Investment properties	55,041	159,708
Prepaid taxes other than income tax and funds to be refunded	18,654	24,036
Prepaid income taxes	418	125
Others	104,850	950,324
Total other assets	**10,727,954**	**7,661,520**

As at 31 December 2012, 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% for demand deposits, and the rates decrease to 5% as maturities get longer (31 December 2011: 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 11% in US Dollar or Euro for demand and up to 1 year maturity deposits and rates decrease to 6% as maturities get longer (31 December 2011: 11% in US Dollar or Euro for demand and up to 1 year maturity deposits and rates decrease to 6% as maturities get longer).

As at 31 December 2012, TL 627,109 (31 December 2011: TL 550,578) 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 2012 and 2011, movement of deferred acquisition cost is as follows:

	31 December 2012	31 December 2011
Deferred acquisition cost at the beginning of the period	79,501	65,016
Addition	141,841	139,234
Transfer to profit/loss	(144,327)	(124,749)
Deferred acquisition cost at the end of the period	**77,015**	**79,501**

17. Trading liabilities

As at 31 December 2012 and 2011, trading liabilities comprise negative fair value differences of derivative financial instruments held for trading purpose and are as follows:

	31 December 2012	31 December 2011
Forwards	4,197	7,973
Swaps	195,040	336,733
Options	455	97
Total	**199,692**	**344,803**

(Currency – Thousands of Turkish Lira (TL))

18. Deposits from banks

As at 31 December 2012 and 2011, deposits from banks comprise the following:

	31 December 2012	31 December 2011
Demand deposits	15,263	34,116
Time deposits	4,229,426	3,470,330
Total deposits from banks	**4,244,689**	**3,504,446**

19. Deposits from customers

As at 31 December 2012 and 2011, deposits from customers comprise the following:

	31 December 2012		31 December 2011	
	Demand Deposit	Time Deposit	Demand Deposit	Time Deposit
Saving deposits	2,046,323	15,044,654	1,671,682	13,358,867
Foreign currency deposits	1,900,858	14,238,501	1,593,129	14,428,898
Residents in Turkey	*1,524,471*	*11,825,163*	*1,393,567*	*13,155,139*
Residents in abroad	*376,387*	*2,413,338*	*199,562*	*1,273,759*
Commercial deposits	1,297,414	9,740,311	1,186,966	8,798,522
Public sector deposits	2,706,233	9,013,912	2,766,392	7,629,741
Others	3,095,938	5,134,891	1,931,014	4,897,917
Total deposits from customers	**11,046,766**	**53,172,269**	**9,149,183**	**49,113,945**

20. Funds borrowed

As at 31 December 2012 and 2011, funds borrowed comprise the followings in accordance with their original maturities:

	31 December 2012		31 December 2011	
	TL	Foreign currency	TL	Foreign Currency
Short-term funds	*252,656*	*4,744,060*	*330,796*	*2,902,725*
Short-term portion of long term funds	*41,985*	*43,714*	*8,911*	*1,600,786*
Total short-term funds	294,641	4,787,774	339,707	4,503,511
Medium/long term funds	8,112	3,041,822	51,767	4,058,011
Total funds borrowed	**302,753**	**7,829,596**	**391,474**	**8,561,522**

Funds borrowed comprise syndication and securitization loans bearing various interest rates and maturities and account for 8.56% (31 December 2011: 10.79%) of the Group's liabilities. There is no risk concentration on funding sources of the Group.

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.

20. Funds borrowed *(continued)*

The syndicated loan's repayment was realized on 10 September 2012. This loan has been renewed with a syndicated loan at the amount of USD 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.

On 28 March 2011, the Bank has obtained syndication loan of USD 192.5 million and Euro 573.5 million with one year maturity at the cost Libor + 1.10% for USD and Euribor + 1.10% for EUR, with the participation of 34 banks under the coordination of West LB AG, the loan was repaid on 29 March 2011. 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.

21. Debt securities issued

On 1 June 2012, the Bank has issued floating-rate bonds with monthly coupon payment with a nominal value of TL 200,000 and 374 days maturity. The nominal value of the bond is determined as TL 105,055 with respect to book-building process. As at 31 December 2012, the carrying amount of the related bonds is TL 102,305.

On 27 July 2012, the Bank has issued discounted bonds with a nominal values of TL 500,000 and 175 days maturity and TL 200,000 and 318 days maturity. The nominal values of the bonds are determined as TL 724,565 and TL 98,070 with respect to book-building process. As at 31 December 2012, the carrying amounts of the related bonds are TL 630,987 and TL 94,168 respectively.

On 21 September 2012, the Bank has issued discounted bond with a nominal value of TL 200,000 and 175 days maturity. The nominal value of the bond is determined as TL 181,606 with respect to book-building process. As at 31 December 2012, the carrying amount of the related bond is TL 163,998.

On 27 November 2012, the Bank has issued discounted bonds with a nominal values of TL 400,000 and 171 days maturity and TL 150,000 and 346 days maturity. The nominal values of the bonds are determined as TL 615,375 and TL 53,373 with respect to book-building process. As at 31 December 2012, the carrying amounts of the related bonds are TL 499,318 and TL 48,400 respectively.

On 24 April 2012, the Bank has issued the bond with a nominal value of USD 500 million and with the maturity date of 24 April 2017. 36% of the bond has been sold in Europe, 27% in the United States, 27% in England, 10% in Asia and the Middle East. Furthermore, with respect to purchaser parties 64% of the bond was purchased by fund managers, 18% was purchased by banks, 14% by private banks and 4% by insurance and pension funds. As of 31 December 2012, the carrying amount of the bond is TL 891,137.

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 trance 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 2012 carrying value of subordinated liabilities amount to TL 1,630,188.

(Currency – Thousands of Turkish Lira (TL))

23. Other liabilities and provisions

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

	31 December 2012	31 December 2011
Accounts against expenditures of credit card holders	2,027,044	1,670,263
Reserve for unearned insurance premiums	510,300	434,717
Import letter of credit	486,243	395,447
Reserve for outstanding claims for insurance contracts	436,409	395,821
Reserve for employee severance indemnity	243,602	186,920
Clearing account	237,941	69,974
Unearned income	183,242	76,436
Taxes payable other than income tax	171,559	128,045
Investment contract liabilities	169,611	170,589
Reserve for short term employee benefits	165,638	152,319
Long term insurance contracts	152,463	120,575
Miscellaneous payables	139,788	119,364
Other provisions	127,324	86,248
Payables due to insurance activities	106,624	126,451
Payables to suppliers relating to finance lease activities	90,571	53,558
Provision for unused vacations	67,383	66,273
Deferred commission income for insurance contracts	42,520	34,242
Provision for non-cash loans	36,173	67,937
Blocked accounts	36,351	50,343
Payables due to derivative financial instruments	20,979	59,783
Other liabilities	92,347	978,389
Total other liabilities and provisions	**5,544,112**	**5,443,694**

Insurance contract liabilities are detailed in the tables below:

Reserve for unearned insurance premiums	**31 December 2012**	**31 December 2011**
Reserve for unearned insurance premiums, net	280,219	208,247
Reserve for unearned insurance premiums, reinsurer share	230,081	226,470
Reserve for unearned insurance premiums, gross	**510,300**	**434,717**

Reserve for unearned insurance premiums (net)	**31 December 2012**	**31 December 2011**
At the beginning of the period	208,247	243,661
Premiums written during the period *(Note 28)*	655,323	498,289
Premiums earned during the period *(Note 28)*	(583,351)	(533,703)
At the end of the period	**280,219**	**208,247**

(Currency – Thousands of Turkish Lira (TL))

23. Other liabilities and provisions *(continued)*

Provision for outstanding claims	31 December 2012	31 December 2011
Provision for outstanding claims, net	205,030	185,121
Provision for outstanding claims, reinsurer share	231,379	210,700
Provision for outstanding claims, gross	**436,409**	**395,821**

Provision for outstanding claims (net)	31 December 2012	31 December 2011
At the beginning of the period	185,121	218,984
Cash paid for claims settled during the period *(Note 30)*	(376,707)	(360,987)
Increase during the period *(Note 30)*	396,616	327,124
At the end of the period	**205,030**	**185,121**

Long term insurance contracts	31 December 2012	31 December 2011
At the beginning of the period	291,164	282,861
Entrance during the period	37,994	107,315
Withdrawals during the period	(10,488)	(87,130)
Change in fair value of investments held for investment contracts	3,404	(11,882)
At the end of the period	**322,074**	**291,164**
Long term insurance contracts	*152,463*	*120,575*
Investment contract liabilities	*169,611*	*170,589*

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

Reserve for employee severance indemnity	31 December 2012	31 December 2011
At the beginning of the period	186,920	165,230
Currency translation difference	(8)	13
Interest cost	19,133	14,373
Service cost	15,165	9,487
Payment during the period	(20,713)	(19,742)
Actuarial difference	43,105	17,559
At the end of the period	**243,602**	**186,920**

24. Income taxes

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

	31 December 2012	31 December 2011
Income tax recognized in profit for the year		
Current income tax related to income from operations	(464,512)	(387,387)
Deferred income tax related to income from operations	56,427	45,425
	(408,085)	**(341,962)**
Income tax recognized in other comprehensive income		
Current income tax recognized in other comprehensive income	(59,957)	73,378
Deferred income tax recognized in other comprehensive income	(22,615)	20,243
	(82,572)	**93,621**
Income tax expense recognized in the consolidated statement of comprehensive income	**(490,657)**	**(248,341)**

(Currency – Thousands of Turkish Lira (TL))

24. Income taxes *(continued)*

The movement of current tax liabilities is as follows:

	31 December 2012	31 December 2011
At the beginning of the year	22,898	115,062
Current income tax charge	464,512	387,387
Current income tax recognized under equity	59,957	(73,378)
Taxes paid during the year	(374,559)	(406,173)
Current tax liabilities	**172,808**	**22,898**

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 2012 and 2011 is as follows:

	2012	Tax rate (%)	2011	Tax rate (%)
Profit from ordinary activities before income tax and non-controlling interest	**2,002,187**		**1,936,682**	
Taxes on income per statutory tax rate	(400,437)	(20.00)	(387,336)	(20.00)
Income not subject to tax	12,663	0.63	24,492	1.26
Investment incentives	(131)	(0.01)	3,519	0.18
Disallowable expenses	(18,595)	(0.93)	(2,336)	(0.12)
Others, net	(1,585)	(0.07)	19,699	1.02
Income tax expense	**(408,085)**	**(20.38)**	**(341,962)**	**(17.66)**

Deferred tax assets and liabilities at 31 December 2012 and 2011 are attributable to the items below:

	31 December 2012	31 December 2011
Other provisions	77,390	41,627
Provision for employee severance indemnity and unused vacations	61,827	50,539
Investment incentive	26,052	28,436
Valuation difference for property and equipment	14,522	16,972
Valuation differences of financial assets and liabilities	56,803	76,986
Tax losses carried forward	13,479	7,029
Other temporary differences	2,674	1,606
Deferred tax assets	**252,747**	**223,195**
Net-off of the deferred tax assets and liabilities from the same entity	(34,990)	(45,615)
Deferred tax assets, (net)	**217,757**	**177,580**
Valuation differences of financial assets and liabilities	36,274	41,243
Other temporary differences	5,394	8,039
Deferred tax liabilities	**41,668**	**49,282**
Net-off of the deferred tax assets and liabilities from the same entity	(34,990)	(45,615)
Deferred tax liabilities, (net)	**6,678**	**3,667**

(Currency – Thousands of Turkish Lira (TL))

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 of 31 December 2012 and 2011.

The following reflects the basic earnings per share computations:

	31 December 2012	**31 December 2012**
Net profit attributable for the year	1,594,102	1,594,720
Number of 100 ordinary shares for basic earnings per share	2.500.000	2.500.000
Basic earnings per 100 share	0.6376	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 2012, the authorized nominal share capital of the Bank amounts to TL 2,500,000 (31 December 2011: 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 2012, share capital presented in equity amounts to TL 3,300,146 (31 December 2011: TL 3,300,146). An adjustment to share capital amounting to TL 800,146 at 31 December 2012 (31 December 2011: 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 58th Annual General Assembly held on 30 March 2012, the Bank's statutory profit for the year ended 31 December 2011 amounting to TL 1,226,785 has been transferred to legal reserves amounting to TL 120,126 and to other reserves amounting to TL 1,069,659; and the remaining profit amounting to TL 37,000 has been decided to be distributed as dividends to equity holders of the Bank.

(Currency – Thousands of Turkish Lira (TL))

26. Equity *(continued)*

Non-controlling interest

As at 31 December 2012, non-controlling interest is analysed as follows:

	31 December 2012	31 December 2011
Capital and other reserves	484,583	435,396
Legal reserves	22,847	20,792
Retained earnings	(44,537)	(98,572)
Profit for the year	2,003	64,605
Total non-controlling interest	**464,896**	**422,221**

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

	31 December 2012	31 December 2011
Balance at the beginning of the year	(13,977)	408,813
Net gains/(losses) from changes in fair values	1,004,177	(359,991)
Related deferred and current income taxes	(76,391)	69,616
Net gains transferred to profit or loss on disposal	(33,821)	(156,420)
Related deferred and current income taxes	(6,181)	24,005
Balance at the end of the year	**873,807**	**(13,977)**

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 2012	31 December 2011
Cash loans	9,372	4,443
Non-cash loans	603,228	594,618
Deposits taken	1,221,935	1,538,218

Transactions entered into

	31 December 2012	31 December 2011
Interest income	608	1,353
Interest expense	(63,241)	(44,828)
Commission income	301	79
Other operating income	7,233	2,457
Other operating expense	(4,254)	(13,222)

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 2012, the key management and the members of the Board of Directors received remuneration and fees amounted to TL 19,388 (31 December 2011: TL 16,171).

(Currency – Thousands of Turkish Lira (TL))

28. Other income

As at and for the years ended 31 December 2012 and 2011, other income comprised the followings:

	31 December 2012	31 December 2011
Earned premiums *(Note 23)*	583,351	533,703
Written premiums (Note 23)	*655,323*	*498,289*
Change in reserve for unearned premiums	*(71,972)*	*35,414*
Excess fee charged to customers for communication expenses	81,146	80,627
Individual pension business income	34,068	25,574
Income from sale of fixed assets	33,130	110,058
Rent income	8,801	2,705
Others	159,718	70,451
Total	**900,214**	**823,118**

29. Salaries and employee benefits

As at and for the years ended 31 December 2012 and 2011, salaries and employee benefits comprised the following:

	31 December 2012	31 December 2011
Wages and salaries	(507,762)	(440,851)
Other fringe benefits	(321,975)	(376,220)
Employer's share of social security premiums	(127,602)	(119,133)
Provision for short term employee benefits	(190,437)	(98,978)
Provision for employee termination benefits *(Note 23)*	(56,690)	(21,677)
Change in provision for liability for unused vacations	(3,858)	(6,514)
Total	**(1,208,324)**	**(1,063,373)**

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

	31 December 2012	31 December 2011
The Bank	12,847	12,028
Subsidiaries	2,102	1,988
Total	**14,949**	**14,016**

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) 3,034 and TL (full TL) 2,732 as at 31 December 2012 and 2011, respectively.

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 2012 and 2011 are as follows:

	31 December 2012	31 December 2011
Discount rate	1.91%	3.78%
Expected rate of salary/limit increase	5.00%	5.00%
Turnover rate to estimate the probability of retirement	1.93%	1.61%

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

(Currency – Thousands of Turkish Lira (TL))

30. Other expenses

As at and for the years ended 31 December 2012 and 2011, other expenses comprised the following:

	31 December 2012	31 December 2011
Incurred insurance claims *(Note 23)*	(396,616)	(327,124)
Insurance claims paid (Note 23)	*(376,707)*	*(360,987)*
Change in provision for outstanding claims	*(19,909)*	*33,863*
Banking services promotion expenses	(368,789)	(323,923)
Rent expenses and operating lease charges	(155,838)	(126,245)
Advertising expenses	(78,115)	(50,494)
Communication expenses	(76,320)	(67,536)
Change in long term insurance contracts	(69,956)	(9,777)
Saving Deposit Insurance Fund premiums	(60,450)	(55,200)
Cleaning service expenses	(42,506)	(38,209)
Energy expenses	(26,275)	(23,380)
Maintenance expenses	(21,096)	(15,574)
Office supplies	(19,447)	(15,362)
Transportation expenses	(17,819)	(14,783)
Computer usage expenses	(17,744)	(15,389)
BRSA participation fee	(13,378)	(11,094)
Credit card promotion expenses	(13,312)	(1,975)
Hosting expenses	(13,172)	(11,718)
Consultancy expenses	(9,376)	(12,315)
Other provision expenses	(5,440)	(42,069)
Individual pension business expenses	(35,596)	(25,873)
Other various administrative expenses	(330,714)	(188,564)
Total	**(1,771,959)**	**(1,376,604)**

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 2012	31 December 2011
Letters of guarantee	12,640,503	11,050,526
Letters of credit	3,774,709	4,099,400
Acceptance credits	805,832	483,594
Other guarantees	29,993	8,279
Total non-cash loans (financial guarantee contracts)	**17,251,037**	**15,641,799**
Credit card limit commitments	4,938,035	4,322,604
Loan granting commitments	4,958,548	4,598,065
Commitments for cheque payments	1,154,273	829,640
Commitments for credit card and banking operations promotions	306,109	246,030
Total commitments	**11,356,965**	**9,996,339**
Total commitments and contingencies	**28,608,002**	**25,638,138**

(Currency – Thousands of Turkish Lira (TL))

31. Commitments and contingencies *(continued)*

Contingent assets and liabilities

There are various legal cases against the Group for which TL 16,581 (31 December 2011: TL 17,056) 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.

There has been an investigation to determine whether there has been a breach of 4054 numbered Competition Protection Law through performing concerted actions about deposits, loans and credit card services and it has been decided to impose a penalty amounting to TL 82,173 to the Bank. The related penalty shall be paid at a rate of ¾ amounting to TL 61,630 in 30 days following the notification, in accordance with the prevailing laws and regulations. As at 31 December 2012, the Bank has set aside provision for the mentioned penalty amounting to TL 61,630 in the accompanying consolidated financial statements.

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.

32. Subsidiaries and associates

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

	Direct Shareholding Interest (%)	Indirect Shareholding Interest (%)
Subsidiaries:		
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 (**)	-	-
Associates:		
Kıbrıs Vakıflar Bankası Ltd.	15.00	15.00

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.

(**) 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.

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.

33. Subsequent events

- Board of Directors has authorized headquarter of the Bank for the establishment of GMTN ("Global Medium Term Notes") program which will enable the issuance of utmost USD 3 billion amount equivalent bond. The program addresses resident and non-resident qualified corporate investors for issues in TL, and only non-resident qualified corporate investors for issues in USD, Euro, CHF and/or other currencies having high liquidity in international bonds and money markets.

  In this concept the Bank has applied to CMB and BRSA on February 2013 for establishment of USD 3 billion equivalent amount GMTN program and issuance of utmost 3 billion USD equivalent bond in different currencies within the scope of this program.

- Per 11 January 2013 dated and 29833736-105.03.01-55-239 numbered approval of CMB, the Bank has completed book building process on 14-15-16 January 2013. The issuance of the bills has realized on 18 January 2013 with nominal values of TL 115,686, TL 734,314, and TL 150,000. Maturity terms and the dates are 143 days, 10 June 2013, 168 days 5 July 2013 and 364 days 17 January 2014 respectively.

- There has been an investigation to determine whether there has been a breach of 4054 numbered Competition Protection Law through performing concerted actions about deposits, loans and credit card services and it has been decided to impose a penalty amounting to TL 82,173 to the Bank. The related penalty shall be paid at a rate of ¾ amounting to TL 61,630 in 30 days following the notification, in accordance with the prevailing laws and regulations. As at 31 December 2012, the Bank has set aside provision for the mentioned penalty amounting to TL 61,630 in the accompanying consolidated financial statements.