KPMG

TÜRKİYE İŞ BANKASI ANONİM ŞİRKETİ
AND ITS SUBSIDIARIES

Consolidated Financial Statements
As At and For the Year Ended
31 December 2013
With Independent Auditors' Report

Akis Bağımsız Denetim ve Serbest Muhasebeci
Mali Müşavirlik Anonim Şirketi

30 April 2014

This report contains 2 pages of independent auditors' report on consolidated financial statements and 142 pages of consolidated financial statements and notes to the consolidated financial statements.

Türkiye İş Bankası Anonim Şirketi and Its Subsidiaries

TABLE OF CONTENTS

Akis Bağımsız Denetim ve Serbest
Muhasebeci Mali Müşavirlik A.Ş.
Kavacık Rüzgarlı Bahçe Mah.
Kavak Sok. No: 29
Beykoz 34805 İstanbul

Telephone +90 (216) 681 90 00
Fax +90 (216) 681 90 90
Internet www.kpmg.com.tr

Independent Auditors' Report

To the Board of Directors of
Türkiye İş Bankası Anonim Şirketi,

Introduction

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

Basis for Qualified Opinion

The accompanying consolidated financial statements include a general provision amounting to TL 855,000 thousands, provided by the Bank management for the possible result of the negative circumstances which may arise from any changes in the economy or market conditions and full amount of such provision had been recognised as expense in the prior periods. If this general provision was not recognised, provisions would have been decreased by TL 855,000 thousands and retained earnings would have been increased by TL 855,000 thousands as at and for the year ended 31 December 2013.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2013, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Akis Bağımsız Denetim ve SMMM A.Ş.

Istanbul, Turkey
30 April 2014

TÜRKİYE İŞ BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013
(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated)

Assets	**Note**	**31 December 2013**	**31 December 2012**
Cash and cash equivalents	*7*	2,194,664	1,682,399
Balances with central bank	*8*	21,152,651	14,331,667
Loans and advances to banks	*9*	5,572,863	4,783,017
Financial assets at fair value through profit or loss		2,913,514	2,197,390
- Trading investment securities	*10*	*1,624,680*	*1,554,867*
- Derivative financial instruments	*46*	*1,288,834*	*642,523*
Loans and advances to customers	*11*	146,863,072	115,923,798
Trade receivables	*12*	2,125,711	1,655,772
Insurance receivables	*14*	1,510,112	1,273,219
Inventories	*13*	1,341,893	1,252,804
Investment securities		42,026,239	43,227,680
- Available for sale investment securities	*10*	*34,297,792*	*32,177,507*
- Held to maturity investment securities	*10*	*7,728,447*	*11,050,173*
Current tax asset	*28*	27,235	34,639
Investments in equity-accounted investees	*15*	949,989	740,105
Goodwill	*16*	119,274	129,721
Property, plant and equipment	*17*	7,928,327	6,578,288
Investment properties	*19*	1,064,261	1,055,768
Intangible assets	*18*	355,504	230,969
Non-current assets held for sale	*20*	103,566	73,295
Deferred tax asset	*28*	994,555	948,270
Other assets	*21*	3,417,260	2,849,088
Total assets		**240,660,690**	**198,967,889**

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

TÜRKİYE İŞ BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

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

Liabilities and equity	**Note**	**31 December 2013**	**31 December 2012**
Deposits	*22*	120,001,979	104,554,427
- Deposits from banks	*22*	*4,192,301*	*3,211,813*
- Deposits from customers	*22*	*115,809,678*	*101,342,614*
Obligations under repurchase agreements	*23*	22,595,899	14,825,470
Derivative financial instruments	*46*	1,201,500	760,440
Funds borrowed	*24*	29,517,506	21,134,163
Debt securities issued	*25*	11,120,911	6,468,156
Payables to stock exchange money market	*26*	2,403,976	2,200,404
Trade payables	*27*	2,474,550	1,318,094
Taxes and dues payable	*28*	330,425	287,934
Employee benefits	*30*	2,533,654	2,497,454
Corporate tax liability	*28*	197,640	415,181
Insurance contract liabilities	*14*	5,299,483	5,030,820
Provisions	*29*	1,366,673	1,192,069
Deferred tax liabilities	*28*	17,155	30,014
Liabilities held for sale	*20*	21,016	--
Other liabilities	*31*	8,363,308	8,367,077
Subordinated liabilities	*32*	3,090,902	1,893,576
Total liabilities		**210,536,577**	**170,975,279**
Share capital	*33*	6,115,938	6,115,938
Share premium	*33*	38,434	148,434
Legal reserves	*33*	2,657,122	2,364,231
Fair value reserve	*33*	(799,363)	950,104
Translation reserve	*33*	361,170	130,802
Other reserve		7,017	6,701
Actuarial gain/(loss)		29,133	--
Retained earnings		15,437,453	12,588,942
Total equity attributable to equity holders of the Bank		**23,846,904**	**22,305,152**
Non-controlling interest		6,277,209	5,687,458
Total equity		**30,124,113**	**27,992,610**
Total liabilities and equity		**240,660,690**	**198,967,889**
Commitment and contingencies	*46*	**81,487,452**	**66,914,052**

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

TÜRKİYE İŞ BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

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

	Note	2013	2012
Interest income on loans		10,857,188	10,122,593
Interest income on securities		3,554,389	4,136,029
Interest income on deposits at banks		163,288	214,147
Interest income on finance leases		123,826	105,086
Interest income on factoring transactions		53,141	49,108
Other interest income		64,117	57,955
Total interest income		**14,815,949**	**14,684,918**
Interest expense on deposits		(4,752,326)	(5,362,081)
Interest expense on borrowings		(680,531)	(533,814)
Interest expense on interbank borrowings		(1,165,665)	(1,475,926)
Interest expense on debt securities issued		(595,336)	(454,112)
Other interest expense		(92,474)	(78,910)
Total interest expense		**(7,286,332)**	**(7,904,843)**
Net interest income		**7,529,617**	**6,780,075**
Fee and commission income	*34*	2,400,349	2,086,462
Fee and commission expense	*34*	(919,399)	(819,168)
Net fee and commission income	*34*	**1,480,950**	**1,267,294**
Securities trading income, net		388,027	765,797
Derivative trading expense, net		(500,764)	(283,780)
Income from manufacturing operations	*35*	5,954,187	5,376,875
Income from insurance operations	*36*	3,184,098	3,123,914
Income from other operations	*41*	779,756	358,229
Cost of manufacturing operations	*38*	(4,458,778)	(3,934,590)
Cost of insurance operations	*39*	(2,433,496)	(2,429,242)
Cost of investment and other operations	*41*	(740,269)	(470,209)
Other operating income	*37*	726,215	852,735
Other operating expenses	*40*	(6,991,576)	(6,253,084)
Foreign exchange gains, net		704,248	383,878
Impairment losses on financial assets, net	*42*	(374,133)	(34,294)
Dividend income		27,847	17,272
Share of income of equity-accounted investees	*15*	8,982	310,052
Profit before income tax		**5,284,911**	**5,830,922**
Income tax expense	*28*	(892,130)	(1,019,588)
Profit for the year		**4,392,781**	**4,811,334**
Profit attributable to:			
Equity holders of the Bank		3,688,645	4,173,405
Non-controlling interest		704,136	637,929
Profit for the year		**4,392,781**	**4,811,334**
Basic and diluted earnings per share (Full TL)	*44*	**0.0328**	**0.0371**

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2013

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

	2013	**2012**
Profit for the year	**4,392,781**	**4,811,334**
Other comprehensive income		
Items that will never be reclassified to profit or loss:		
Remeasurements of defined benefit liability	36,523	--
Deferred tax gain	(7,305)	--
		--
	29,218	--
Items that are or may be reclassified to profit or loss:		
Change in unrealised gains/(losses) on available for sale investments	(2,242,992)	1,512,270
Income tax relating to components of other comprehensive income	330,154	(243,204)
Net losses on available for sale assets transferred to the income statement on disposal	(46,915)	(18,448)
Non-controlling interest share on fair value change in subsidiaries	175,089	132,701
Foreign currency translation differences	192,945	(125,747)
Change in other reserves	316	2,944
	(1,591,403)	**1,260,516**
Other comprehensive income, net of tax	**(1,562,185)**	**1,260,516**
Total comprehensive income for the year	**2,830,596**	**6,071,850**
Attributable to		
Equity holders of the Bank	2,198,995	5,284,277
Non-controlling interest	631,601	787,573
Total comprehensive income for the year	**2,830,596**	**6,071,850**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

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

	Attributable to equity holders of the Bank										
	Share capital	**Share premium**	**Legal reserves**	**Fair value reserve**	**Translation reserve**	**Other reserve**	**Actuarial gain/(loss)**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total Equity**
Balance at 1 January 2013	**6,115,938**	**148,434**	**2,364,231**	**950,104**	**130,802**	**6,701**	**--**	**12,588,942**	**22,305,152**	**5,687,458**	**27,992,610**
Total comprehensive income for the year											
Net profit for the year	--	--	--	--	--	--	--	3,688,645	3,688,645	704,136	4,392,781
Other comprehensive income, net of tax											
Items that are or may be reclassified subsequently to profit or loss:											
Change in unrealised losses on available for sale investments		--	--	(1,702,111)	--	--	--	--	(1,702,111)	(210,727)	(1,912,838)
Net gains on available for sale assets transferred to the income statement on disposal	--	--	--	(47,356)	--	--	--	--	(47,356)	441	(46,915)
Non-controlling interest on fair value change in subsidiaries		--	--	--	--	--	--	--	--	175,089	175,089
Change in other reserves	--	--	--	--	--	316	--	--	316	--	316
Foreign currency translation differences for foreign operations		--	--	--	230,368	--	--	--	230,368	(37,423)	192,945
Net change in actuarial gain related to employee benefits		--	--	--	--	--	29,133	--	29,133	85	29,218
Total other comprehensive income/(expense)				(1,749,467)	230,368	316	29,133	--	(1,489,650)	(72,535)	(1,562,185)
Total comprehensive income/(expense) for the year	**--**	**--**	**--**	**(1,749,467)**	**230,368**	**316**	**29,133**	**3,688,645**	**2,198,995**	**631,601**	**2,830,596**
Transactions with owners, recognised directly in equity											
Contributions by and distributions to owners											
Dividend distribution	--	--	--	--	--	--	--	(796,618)	(796,618)	(127,885)	(924,503)
Transfer to legal reserves	--	--	292,891	--	--	--	--	(292,891)	--	--	--
Other(*)	--	--	--	--	--	--	--	138,931	138,931	--	138,931
Total contributions by and distributions to owners	**--**	**--**	**292,891**	**--**	**--**	**--**	**--**	**(950,578)**	**(657,687)**	**(127,885)**	**(785,572)**
Changes in ownership interests in subsidiaries											
Changes in share premium	--	(110,444)	--	--	--	--	--	110,444	--	--	--
Acquisition of subsidiary with non-controlling interests	--	--	--	--	--	--	--	--	--	15,186	15,186
Acquisition of non-controlling interests without a change in control	--	444	--	--	--	--	--	--	444	70,849	71,293
Total transactions with owners	**--**	**(110,000)**	**292,891**	**--**	**--**	**--**	**--**	**(840,134)**	**(657,243)**	**(41,850)**	**(699,093)**
Balance at 31 December 2013	**6,115,938**	**38,434**	**2,657,122**	**(799,363)**	**361,170**	**7,017**	**29,133**	**15,437,453**	**23,846,904**	**6,277,209**	**30,124,113**

(*) According to the Articles of Incorporation of the Bank, a portion of the net profit for the period is distributed to the employees as a dividend. Provision recognized in 2012 for dividends to be distributed to employees within the scope of "IAS 19 – Employee Benefits" has been added to distributable profit.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

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

	Attributable to equity holders of the Bank									
	Share capital	**Share premium**	**Legal reserves**	**Fair value reserve**	**Translation reserve**	**Other reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total Equity**
Balance at 1 January 2012	**6,115,938**	**37,727**	**2,149,118**	**(263,312)**	**236,213**	**(2,968)**	**9,265,734**	**17,538,450**	**5,026,998**	**22,565,448**
Total comprehensive income for the year										
Net profit for the year	--	--	--	--	--	--	4,173,405	4,173,405	637,929	4,811,334
Other comprehensive income, net of tax										
Items that are or may be reclassified subsequently to profit or loss:										
Change in unrealised gains on available for sale investments	--	--	--	1,232,287	--	--	--	1,232,287	36,779	1,269,066
Net gains/(losses) on available for sale assets transferred to the income statement on disposal	--	--	--	(18,871)	--	--	--	(18,871)	423	(18,448)
Non-controlling interest on fair value change in subsidiaries	--	--	--	--	--	--	--	--	132,701	132,701
Change in other reserves	--	--	--	--	--	2,867	--	2,867	77	2,944
Foreign currency translation differences for foreign operations	--	--	--	--	(105,411)	--	--	(105,411)	(20,336)	(125,747)
Total other comprehensive income/(expense)				1,213,416	(105,411)	2,867	--	1,110,872	149,644	1,260,516
Total comprehensive income/(expense) for the year	**--**	**--**	**--**	**1,213,416**	**(105,411)**	**2,867**	**4,173,405**	**5,284,277**	**787,573**	**6,071,850**
Transactions with owners, recognised directly in equity										
Contributions by and distributions to owners										
Dividend distribution	--	--	--	--	--	--	(633,636)	(633,636)	(113,476)	(747,112)
Transfers to legal reserves	--	--	218,115	--	--	--	(218,115)	--	--	--
Total contributions by and distributions to owners	**--**	**--**	**218,115**	**--**	**--**	**--**	**(851,751)**	**(633,636)**	**(113,476)**	**(747,112)**
Changes in ownership interests in subsidiaries										
Changes in share premium	--	110,728	--	--	--	--	--	110,728	--	110,728
Change in non-controlling interests without a change in control	--	--	--	--	--	--	--	--	91,535	91,535
Acquisition of subsidiary with non-controlling interests	--	--	--	--	--	6,802	--	6,802	32,754	39,556
Acquisition of non-controlling interests without a change in control	--	(21)	(3,002)	--	--	--	1,554	(1,469)	(58,572)	(60,041)
Sale of subsidiary with non-controlling interests	--	--	--	--	--	--	--	--	(79,354)	(79,354)
Total transactions with owners	**--**	**110,707**	**215,113**	**--**	**--**	**6,802**	**(850,197)**	**(517,575)**	**(127,113)**	**(644,688)**
Balance at 31 December 2012	**6,115,938**	**148,434**	**2,364,231**	**950,104**	**130,802**	**6,701**	**12,588,942**	**22,305,152**	**5,687,458**	**27,992,610**

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

TÜRKİYE İŞ BANKASI ANONİM ŞİRKETİ AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Amounts expressed in thousands of Turkish Lira ("TL") unless otherwise stated)

	Note	2013	2012
Cash flows from operating activities:			
Profit for the year		4,392,781	4,811,334
Adjustments for:			
Depreciation and amortisation		930,719	823,910
Net interest income		(7,529,617)	(6,780,075)
Income tax expense	*28*	892,130	1,019,588
Provision for/(reversal of) possible loan losses	*42*	374,133	34,294
Increase in retirement pay liability,vacation pay liability and provision for defined benefit plans	*30*	95,932	658,534
Unearned premium reserve	*14*	193,551	61,028
Provision for outstanding claims	*39*	275,334	161,100
Life mathematical provisions	*36, 39*	2,334	(77,439)
Other provision expenses	*29*	174,257	14,853
Income from equity accounted investees	*15*	(8,982)	(310,052)
Allowance for doubtful receivables	*12*	8,460	(192)
Allowance for doubtful insurance receivables	*14*	15,171	10,033
Reversal of impairment losses on inventory	*13*	1,817	(2,875)
Reversal of impairment losses on property, plant and equipment		(15,728)	(99)
Gain on business combination	*6*	--	(6,516)
Gain on sale of property, plant and equipment	*37*	(249,492)	(119,485)
Gain on sale of equity accounted investees		(72,634)	--
		(519,834)	**297,941**
Change in trading assets		(293,197)	97,221
Change in reserve deposits		(3,737,268)	(4,406,669)
Change in loans and advances to banks		(181,497)	(562,194)
Change in loans and advances to customers		(30,372,844)	(16,864,799)
Change in trade receivables		(478,399)	(232,836)
Change in insurance receivables		(252,064)	(83,209)
Change in inventories		(90,906)	(210,768)
Change in other assets		687,957	497,955
Change in deposits from banks		981,267	831,068
Change in deposits from customers		14,440,195	6,398,441
Change in obligations under repurchase agreements		7,777,425	(5,627,867)
Change in trade payables		1,176,453	272,364
Change in other liabilities and provisions		(239,848)	3,278,070
		(11,102,560)	**(16,315,282)**
Interest received		13,953,184	14,865,507
Interest paid		(7,154,685)	(9,478,670)
Income taxes paid		(1,059,925)	(1,375,480)
Net cash used in operating activities		**(5,363,986)**	**(12,303,925)**
Cash flows from investing activities:			
Dividends received		27,847	17,272
Acquisition of subsidiary, net of cash acquired	*6*	17,036	(54,271)
Net cash outflow from acquisition of equity accounted investees		--	(19,182)
Acquisition of property, plant and equipment	*17*	(1,965,792)	(1,236,974)
Proceeds from the sale of property, plant and equipment		581,310	419,512
Acquisition of intangible assets	*18*	(254,414)	(144,373)
Acquisition of investment properties, net	*19*	(202,853)	(193,889)
Proceeds from sale of subsidiary		100,500	400,151
Proceeds from sale of equity participations	*15*	--	53,924
Acquisition of investment securities		(14,609,607)	(16,380,655)
Proceeds from sale of investment securities		13,985,700	21,428,411
Net cash provided/(used in) investing activities		**(2,320,273)**	**4,289,926**

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

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

	Note	2013	2012
Cash flows from financing activities:			
Proceeds from issue of debt securities		15,180,162	8,318,585
Repayments of debt securities		(9,963,851)	(5,925,265)
Proceeds from subordinated liabilities		1,388,175	1,785,000
Repayments of funds borrowed		(4,449,264)	(2,002,564)
Proceeds from funds borrowed		9,799,237	3,637,682
Changes in non-controlling interest		86,035	20,353
Dividends paid		(924,503)	(747,112)
Net cash provided from financing activities		**11,115,991**	**5,086,679**
Net increase/(decrease) in cash and cash equivalents		**3,440,514**	**(2,927,320)**
Effects of foreign exchange rate fluctuations on cash and cash equivalents		763,816	(194,415)
Cash and cash equivalents at 1 January	*7*	8,869,773	11,991,508
Cash and cash equivalents at 31 December	*7*	**13,074,103**	**8,869,773**

Notes to the consolidated financial statements **Pages**

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

1. Activities of the Bank and the Group

Türkiye İş Bankası Anonim Şirketi ("the Bank") was incorporated in Turkey in 1924. The Bank provides private, retail, commercial and corporate banking, money market and securities market operations as well as international banking services. The bank now operates a nationwide network of 1,309 (31 December 2012: 1,250) branches, 5,673 ATMs (31 December 2012: 4,451 ATMs), foreign branches in London, Bahrain, Erbil, Pristine and Batumi, 15 branches in the Turkish Republic of Northern Cyprus and two banking subsidiaries in Germany and Russia. The Bank directly invests in equity participations of 25 companies operating mainly in industry and the financial sector.

Address	: İş Kuleleri, 34330, Levent / İstanbul
Phone	: +90 212 316 00 00
Fax	: +90 212 316 09 00
Website	: www.isbank.com.tr

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

The Group controls equity stakes in companies that are active in the areas of banking, insurance, private pensions, capital market brokerage, asset management, venture capital, factoring, reinsurance, finance leasing, investment banking, real estate investment, service and manufacturing. Activities carried out in these business areas and main companies are explained below in summary.

Financial services

Anadolu Anonim Türk Sigorta Şirketi ("Anadolu Sigorta")

The Company was established in 1925 and operates in almost all non-life insurance. The headquarter of the Company is in İstanbul. The Company's shares are traded in Borsa İstanbul A.Ş.

Anadolu Hayat Emeklilik A.Ş. ("Anadolu Hayat")

The Company was founded in 1990 and its headquarter is in İstanbul. The company's main activities are private individual or group pension and life insurance. There are 24 private pension funds founded by the company. The company's shares are traded in Borsa İstanbul A.Ş.

Camiş Menkul Değerler A.Ş.

Founded in 1984, Camiş Menkul Değerler A.Ş. operates in the capital market as a brokerage house.

Closed Joint Stock Company Commercial İşbank ("CJSC İşbank")

CJSC İşbank, which was founded in 1998 and headquartered in Moscow, has also branches in Volga, Saint-Petersburg and Novosibirsk. The Bank gives banking services in the Russian Federation, which mainly consists of deposit, loan and brokerage operations.

Efes Varlık Yönetim A.Ş. ("Efes Varlık")

The field of activity of the company, which was founded in February 2011, is to purchase and sell the receivables and other assets of deposit banks, participation banks and other financial institutions. The Company's headquarter is in İstanbul.

İş Faktoring A.Ş. ("İş Faktoring")

The field of operation of the Company, which operates in the factoring sector since 1993, is domestic and foreign factoring operations. The Company's headquarter is in İstanbul. As at April 2013 the name of the Company was changed to İş Faktoring A.Ş. from İş Factoring Finansman Hizmetleri A.Ş.

İş Finansal Kiralama A.Ş.

The Company, whose field of activity is financial leasing within the country and abroad started its business in 1988. The headquarters of the Company is in İstanbul. The Company's shares are traded in Borsa İstanbul A.Ş.

1. Activities of the Bank and the Group (continued)

Financial services (continued)

İş Gayrimenkul Yatırım Ortaklığı A.Ş. ("İş GYO")

The Company whose main field of activity is investing in real estate, capital market instruments backed by real estate, real estate projects and capital market instruments is conducting its business in the sector as a real estate investment trust since 1999. The Company's shares are traded in Borsa İstanbul A.Ş. since its establishment.

İş Girişim Sermayesi Yatırım Ortaklığı A.Ş. ("İş Girişim")

The Company started its venture capital business in the year 2000 and operates in five fields; informatics, sound and communication systems, producing and commerce of orthopedic products, sport clothing and commerce and restaurant management. The company's shares are traded in Borsa İstanbul A.Ş. since the year 2004.

Is Investment Gulf Ltd.("Is Investment")

The purpose of Is Investment, which was founded in Dubai in the year 2011, is to operate in capital markets in the gulf region.

İş Portföy Yönetimi A.Ş. ("İş Portföy")

The purpose of the Company, which was founded in 2000, is to engage in capital market operations stated in its articles of association. Among the capital market operations, the Company offers portfolio management and investment consulting services only to corporate investors.

İş Yatırım Menkul Değerler A.Ş. ("İş Menkul")

The Company's main field of activity is composed of intermediary, corporate finance, investment consulting and private portfolio management services. The Company's shares are traded in Borsa İstanbul A.Ş. since May 2007.

İş B Tipi Yatırım Ortaklığı A.Ş.

The field of activity of the Company, which was founded in İstanbul in the year 1995, is portfolio management. The Company's shares are traded in Borsa İstanbul A.Ş. since April 1996. In 2012, the Company has merged with TSKB Yatırım Ortaklığı A.Ş. and as at May 2013 the name of the Company was changed to İş B Tipi Yatırım Ortaklığı A.Ş. from İş Yatırım Ortaklığı A.Ş.

İşbank AG

İşbank AG was founded to carry out the banking transactions of Türkiye İş Bankası A.Ş. in Europe. İşbank AG has 17 branches in total, 13 branches in Germany, 1 branch in the Netherlands, 1 branch in France, 1 branch in Switzerland and 1 branch in Bulgaria.

Maxis Investment Ltd.

The purpose of the Company, which was founded in England in the year 2005, is to operate in activities in foreign capital markets. As at December 2013, the name of the Company was changed to Maxis Investments Ltd. from Maxis Securities Ltd.

Milli Reasürans T.A.Ş. ("Milli Reasürans")

The Company, which was founded in 1929 to provide reinsurance services, is located in İstanbul.

1. Activities of the Bank and the Group (continued)

Financial services (continued)

TSKB Gayrimenkul Yatırım Ortaklığı A.Ş. ("TSKB GYO")

The major field of activity of the Company, which was founded in 2006, is to create and develop an investment property portfolio and to invest in capital market instruments that are based on investment properties. The Company's shares are traded in Borsa İstanbul A.Ş. since April 2010.

Türkiye Sınai Kalkınma Bankası A.Ş. ("TSKB")

Türkiye Sınai Kalkınma Bankası A.Ş. (TSKB) which is an industrial development and an investment bank is founded especially to support private sector investments in industry and to provide domestic and foreign capital to Turkish companies. The Bank's shares are traded in Borsa İstanbul A.Ş.

Yatırım Finansman Menkul Değerler A.Ş. ("Yatırım Finansman")

The Company, which was founded in İstanbul in 1976, has merged with TSKB Menkul Değerler A.Ş. The purpose of the Company is to engage in capital market operations stated in its articles of association.

Arap Türk Bankası A.Ş. ("Arap Türk")

Arap Türk has been established on 18 July 1976 as a joint stock entity in accordance with an agreement signed between the Republic of Turkey and the Libyan Arab Republic. In accordance with the Articles of Association, the Board of Directors shall elect a Chairman among its Turkish members and a Deputy Chairman among its Arab members. The General Manager shall always be nominated by the Arab Shareholders assigned by the Board.

Glass

Türkiye Şişe ve Cam Fabrikaları A.Ş. ("Şişecam Group")

Şişecam Group consists of a holding company, Türkiye Şişe ve Cam Fabrikaları A.Ş., 57 subsidiaries, 5 joint ventures and 3 associates. Türkiye Şişe ve Cam Fabrikaları A.Ş. started its glass production in 1935. Besides Turkey, Şişecam Group operates in various countries such as Bosnia-Herzegovina, Bulgaria, Georgia, Netherlands, Egypt, Ukraine, Russia and Romania.

Şişecam Group's core business is mainly glass production. In addition, Şişecam Group is engaged in the complementary industrial and commercial operations related to glass production and participated in various industrial and commercial companies' capital and management.

Telecommunications

Avea İletişim Hizmetleri A.Ş ("Avea")

Avea is a mobile communications operator officially founded on 19 February 2004 with the merger of Türk Telekomünikasyon Anonim Şirketi ("Türk Telekom")'s GSM operator Aycell with Is-TIM, joint venture of the Group and TIM. In September 2006, Türk Telekom increased its stake in Avea to a controlling 81.12% through buying Telecom Italia's 40.60% stake in the company with the remaining 18.05% held by the Group. With the board decision held on February 2012, share capital has been decreased by TL 3,295,000 and increased by TL 3,295,000 in cash on the same day. The Group did not participate in capital increase using its preemptive right. Therefore, the percentage of Group shareholding decreased to 9.57% from 17.83% while shareholding of Türk Telekom increased to 89.99% from 81.37%.

1. Activities of the Bank and the Group (continued)

Logistics and others

Bayek Tedavi Sağlık Hizmetleri ve İşletme A.Ş. ("Bayek")

The Company was founded in 1992 and it operates in medical and education services.

İş Net El. Bil. Ür. Dağ. Tic. ve İletişim Hiz. A.Ş. ("İş Net")

İş Net locally and globally provides service in information and technology sectors since 1999.

İş Koray Tur. Orm. Maden. İnş. Taah. ve T.A.Ş. ("İş Koray")

It operates as a contractor of major construction projects since its establishment in 1997.

Nemtaş Nemrut Liman İşletmeciligi A.Ş. ("Nemtaş")

Nemtaş is a Turkish registered shipping company which was established in 1981, operating a fleet of dry bulk vessels. Nemtaş engages in ship management and related activities such as, chartering and brokering facilities, ship agency services.

Nest in Globe B.V. ("Nest in Globe")

Nest in Globe is a the jointly controlled entity, established on 7 July 2011 by both 50% equal participations of İş GYO and Kayı Holding Anonim Şirketi; to develop, to construct, to manage and to benefit from hotels and other commercial real estate in the Netherlands and abroad.

Numnum Yiyecek ve İçecek AŞ. ("Numnum")

Numnum opened its first store in October 2003 at Maçka. Numnum is managing and operating its restaurants.

Toksöz Spor Malzemeleri Tic A.Ş. ("Toksöz Spor")

Toksöz Spor is selling sporting goods products since 1985.

Ortopro Tıbbi Aletler Sanayi ve Ticaret A.Ş. ("Ortopro")

Ortopro was founded in 2002 and it produces, trades, exports and imports the orthopedics, medical and surgical instruments.

Nevotek Bilişim Ses ve İletişim Sistemleri San. ve Tic. A.Ş. ("Nevotek")

Nevotek is providing project consultancy, research and development of computer hardware and, audio technologies and telecommunication systems in domestic and foreign market. The company is acting as an agent and performing exporting, importing, distributorship, agency, installation, maintenance, after sale services, training and management, marketing of these systems.

Kanyon Yönetim İşletim ve Pazarlama Ltd. Şti. ("Kanyon")

Kanyon was established on 6 October 2004. The main objective and operation of the subsidiary is the management of Kanyon Complex, which includes residences, offices and shops; providing maintenance, security, basic environmental set up and similar activities as well as acting as an agent in the introduction and marketing of the projects belonging to the complex, including property letting and sale.

2. Basis of preparation

2.1 Statement of compliance

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

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

The consolidated financial statements were authorised for issue by the Bank's management on 30 April 2014. The Bank's General Assembly and the other reporting bodies have the power to amend the consolidated financial statements after their issue.

2.2 Basis of measurement

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

- derivative financial instruments are measured at fair value
- financial assets at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- the liability for defined benefit obligations is recognised as the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses.

The methods used to measure fair values are discussed further in Note 3.8.

2.3 Functional and presentation currency

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

Although the currency of the country in which the majority of the Group entities are domiciled is TL, some of the Group entities' functional currency and reporting currency is different than TL. The table below summarizes the functional currencies other than TL of the Group entities:

Functional currency
Bulgarian Lev (BGL)
Egyptian Pounds (EGP)
Currency of European Union (Euro)
Georgian Lari (GEL)
Great British Pound (GBP)
Herzegovina Convertible Mark (KM)
Hungarian Forint (HUF)
Indian Rupee (INR)
Rumen Leyi (RON)
Russian Rubles (RUB)
Ukrainian Hryvnia (UAH)
United Arab Emirates Dirham (AED)
United States Dollars (USD)

2. Basis of preparation (continued)

2.4 Use of estimates and judgements

The preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the application of policies and in the measurement of income and expenses in the profit and loss statement and in the carrying value of assets and liabilities in the statement of financial position, and in the disclosure of information in the notes to the 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 3.8 – *financial assets and financial liabilities*.

Investments in equity securities are evaluated for impairment on the basis described in Note 3.8 – *financial assets and financial liabilities*.

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 3.8 – *financial assets and financial liabilities*.

The Group measures fair values using the fair value hierarchy which is disclosed in Note 4 – *financial risk management*.

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 3.10.

- 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 3.12.

3. Significant accounting policies

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

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

Changes in accounting policies

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

•IFRS 10 Consolidated Financial Statements (2011) (see (a))

•IFRS 11 Joint Arrangements (see (b))

•IFRS 13 Fair Value Measurement (see (c))

•Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) (see (d))

•Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)

•IAS 19 Employee Benefits (2011) (see (e))

The nature and the effect of the changes are further explained below.

(a) Subsidiaries

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

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

(b) Joint arrangements

As a result of IFRS 11, the Group has changed its accounting policy for its interests in joint arrangements. Under IFRS 11, the Group classifies its interests in joint arrangements as either joint operations or joint ventures depending on the Group's rights to the assets and obligations for the liabilities of the arrangements. When making this assessment, the Group considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances. Previously, the structure of the arrangement was the sole focus of classification.

The Group has re-evaluated its involvement in its joint arrangements and has reclassified the investments from jointly controlled entities to joint ventures. The investments reclassified from jointly controlled entities to joint ventures are as follows:

-İş Koray
-Omco İstanbul Kalıp Sanayii ve Tic. A.Ş.
-OOO Balkum
-Oxyvit Kimya Sanayii Ve Tic. A.Ş.
-Rudnik Krecnjaka Vijenac D.O.O.
-Kanyon
-Nest in Globe B.V.

3. Significant accounting policies (continued)

As the Group has taken advantage of the transitional provisions of *Consolidated Financial Statements, Joint Arrangements and Disclosure of interests in Other Entities: Transition Guidance* (Amendments to IFRS 10, IFRS 11 and IFRS 12), the quantitative impact of the change in accounting policy resulting from IFRS 11 for the current period is not presented. The Group should not adjust retrospectively any differences between the accounting methods of proportionate consolidation and equity method, but should instead aggregate the carrying amounts of the assets and liabilities, including any goodwill arising from acquisition, that the Group had previously proportionately consolidated into a single line investment as at the beginning of the earliest period presented. However, because the total quantitative impact of the change in accounting policy resulting from IFRS 11 for the year ended 31 December 2012 is not significant for the Group, the IFRS 11 is not applied retrospectively.

(c) Fair value measurement

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

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

(d) Presentation of items of other comprehensive income

As a result of the amendments to IAS 1, the Group has modified the presentation of items of other comprehensive income in its consolidated statement of profit or loss and other comprehensive income, to present separately items that would be reclassified to profit or loss in the future from those that would never be. Comparative information has also been re-presented accordingly. The adoption of the amendment to IAS 1 has no impact on the recognised assets, liabilities and comprehensive income of the Group.

(e) Defined benefit plans

As a result of IAS 19 (2011), the Group has changed its accounting policy with respect to the basis for determining the income or expense related to defined benefit.

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

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

Previously, the Group determined interest income on plan assets based on their long-term rate of expected return.

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

3. Significant accounting policies (continued)

3.1 Basis of consolidation

Subsidiaries

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

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

Business combinations

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

The Group measures goodwill at the acquisition date as:

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

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

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

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

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

3. Significant accounting policies (continued)

3.1 Basis of consolidation (continued)

Interests in equity-accounted investees

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

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

Special purpose entities

Special purpose entities are entities that are created to accomplish a narrow and well defined objective such as the securitisation of particular assets, or the execution of a specific borrowing or lending transaction. The Group does not have any direct or indirect shareholdings in these entities. 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.

Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related Non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation

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

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

3. Significant accounting policies (continued)

3.1 Basis of consolidation (continued)

Group entities

Subsidiaries		**Direct ownership %**		**Indirect ownership %**	
	Country of incorporation	**31 December 2013**	**31 December 2012**	**31 December 2013**	**31 December 2012**
Manufacturing (Glass industry)					
AC Glass Invest B.V.	Netherlands	--	100.00	--	27.46
Anadolu Cam Eskişehir Sanayi A.Ş.	Turkey	100.00	100.00	53.88	55.99
Anadolu Cam Investment B.V.	Netherlands	75.93	75.93	39.35	40.89
Anadolu Cam San. A.Ş.	Turkey	79.12	79.12	51.83	53.85
Anadolu Cam Yenişehir Sanayi A.Ş.	Turkey	100.00	100.00	53.90	55.99
Automotive Glass Alliance Rus ZAO	Russia	100.00	100.00	45.71	33.25
Automotive Glass Alliance Rus Trading OOO(*)	Russia	100.00	--	45.71	--
Balsand B.V.	Netherlands	51.00	51.00	26.43	27.46
CJSC Brewery Pivdenna	Ukraine	100.00	100.00	26.43	27.46
Camiş Ambalaj San. A.Ş.	Turkey	100.00	100.00	65.50	68.06
Camiş Rus ZAO	Russia	--	100.00	--	68.06
Çayırova Cam San. A.Ş.	Turkey	100.00	100.00	59.94	62.28
Denizli Cam San. A.Ş.	Turkey	51.00	51.00	31.33	32.53
Fritz Beteiligungsgesellschaft GmbH(**)	Germany	100.00	--	45.71	--
Fritz Holding GmbH (**)	Germany	100.00	--	45.71	--
Glass Corp S.A.	Romania	90.00	90.00	41.14	42.75
Merefa Glass Company Ltd.	Ukraine	100.00	100.00	26.43	27.46
OAO Ruscam Kirishi(***)	Russia	--	100.00	--	27.46
OAO Ruscam Pokrovsky	Russia	100.00	100.00	26.43	27.46
OOO Posuda	Russia	100.00	100.00	62.73	64.96
OOO Ruscam Glass Packaging Holding(***)	Russia	100.00	--	26.43	--
OOO Ruscam Management Company(*)	Russia	100.00	--	26.43	--
OOO Ruscam Gorokhovetz	Russia	99.72	99.72	39.24	40.77
OOO Ruscam Holding(***)	Russia	--	100.00	--	27.46
OOO Ruscam Kuban	Russia	100.00	100.00	26.43	27.46
OOO Ruscam Sibir	Russia	100.00	100.00	26.43	27.46
JSC Mina	Georgia	99.86	99.86	51.76	53.78
Paşabahçe Cam San. ve Tic. A.Ş.(****)	Turkey	99.45	99.41	62.73	64.96
Paşabahçe Eskişehir Cam Sanayi ve Tic A.Ş(*)(****)	Turkey	--	100.00	--	65.92
Paşabahçe Investment B.V.	Netherlands	100.00	100.00	62.73	64.96
Paşabahçe Mağazaları A.Ş.	Turkey	100.00	100.00	56.45	60.65
Richard Fritz Inc. (**)	USA	100.00	--	45.71	--
Richard Fritz Spol S.R.O(**)	Slovakia	100.00	--	45.71	--
Richard Fritz GmbH+Co. KG(**)	Germany	100.00	--	45.71	--
Richard Fritz Prototype+Spare Parts GmbH(**)	Germany	100.00	--	45.71	--
Richard Fritz Kft(**)	Hungary	100.00	--	45.71	--
Trakya Cam Investment B.V.	Netherlands	100.00	100.00	50.82	52.74
Trakya Cam Sanayii A.Ş.	Turkey	69.79	69.79	45.71	47.50
Trakya Glass Bulgaria EAD(*****)	Bulgaria	100.00	100.00	50.82	52.74
TRSG Glass Holding B.V.	Netherlands	70.00	70.00	32.00	33.25
Trakya Glass Kuban OOO	Russia	100.00	100.00	45.71	47.50
Trakya Glass Logistic EAD(*****)	Bulgaria	--	100.00	--	52.74
Trakya Glass Rus Trading OOO(*)	Russia	100.00	--	32.00	--
Trakya Glass Rus ZAO	Russia	100.00	100.00	32.00	33.25
Trakya Investment B.V.	Netherlands	100.00	100.00	45.71	47.50
Trakya Polatlı Cam Sanayii A.Ş.	Turkey	100.00	100.00	48.69	50.59
Trakya Yenişehir Cam Sanayi A.Ş.	Turkey	100.00	100.00	48.69	50.59
TRSG Autoglass Holding B.V.	Netherlands	100.00	70.00	45.71	33.25
Türkiye Şişe ve Cam Fab. A.Ş.	Turkey	65.52	69.45	65.51	68.06
Manufacturing (Other)					
Ant Gıda(******)	Turkey	--	99.99	--	99.95
Asmaş Ağır Sanayi Mak. A.Ş.	Turkey	99.98	99.98	55.86	58.04
Cam Elyaf San. A.Ş.	Turkey	99.72	99.72	62.99	62.31
Camiş Egypt Mining Co.	Egypt	99.70	99.70	65.31	67.86
Camiş Elektrik Üretim A.Ş.	Turkey	100.00	100.00	55.09	57.24
Camiş Limited	England	100.00	100.00	64.67	67.13
Camiş Madencilik A.Ş.	Turkey	100.00	100.00	65.51	68.06
Cromital S.p.A.	Italy	100.00	100.00	54.29	56.29
Dost Gaz Depolama A.Ş.	Turkey	100.00	100.00	55.88	58.06
Madencilik San. ve Tic. A.Ş.	Turkey	100.00	100.00	65.23	67.46
Nemtaş	Turkey	100.00	100.00	99.92	99.92

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

3. Significant accounting policies (continued)

3.1 Basis of consolidation (continued)

Group entities (continued)

Subsidiaries		Direct ownership %		Indirect ownership %	
	Country of Incorporation	31 December 2013	31 December 2012	31December 2013	31 December 2012
Manufacturing (Other)					
Ortopro	Turkey	32.50	32.50	11.30	11.24
Şişecam Bulgaria Ltd.	Bulgaria	100.00	100.00	54.24	56.29
Şişecam Chem Invesment BV(*)	Netherlands	100.00	--	54.24	--
Şişecam Soda Lukavac DOO	Bosnia Herzegovina	89.30	89.30	48.43	50.26
Soda San. A.Ş.	Turkey	89.70	89.70	54.18	56.29
Toksöz Spor	Turkey	58.50	58.50	20.34	20.22
Holding					
Trakya Yatırım Holding A.Ş.	Turkey	100.00	100.00	88.05	88.93
Camiş Yatırım Holding A.Ş.	Turkey	99.99	99.99	99.99	99.99
Service					
Bayek (*******)	Turkey	98.29	98.29	95.09	95.05
İş Net	Turkey	100.00	100.00	98.10	98.04
İş Merkezleri Yön. ve İşl. A.Ş.	Turkey	100.00	100.00	99.31	99.30
Mipaş Mümessillik İth. İhr.ve Paz. A.Ş. (*******)	Turkey	100.00	100.00	99.92	100.00
Şişecam Dış Ticaret A.Ş.	Turkey	100.00	100.00	65.50	68.06
Nevotek	Turkey	81.24	81.24	28.25	28.09
Num Num	Turkey	61.66	61.66	21.44	21.32
Banking					
İşbank AG	Germany	100.00	100.00	100.00	100.00
TSKB	Turkey	50.00	50.00	48.85	48.80
CJSC İşbank	Russia	100.00	100.00	100.00	100.00
Reinsurance					
Milli Reasürans T.A.Ş.	Turkey	76.72	76.72	76.72	76.72
Insurance					
Anadolu Hayat	Turkey	83.00	83.00	72.45	71.56
Anadolu Sigorta	Turkey	61.76	57.31	48.42	43.97
Şişecam Sigorta Aracılık Hizmetleri A.Ş.	Turkey	100.00	100.00	65.48	68.04
Leasing					
İş Finansal Kiralama A.Ş.	Turkey	57.39	57.39	42.72	42.71
Factoring					
İş Faktoring	Turkey	99.99	99.99	44.06	44.04
Other financial					
İş Menkul	Turkey	70.69	70.69	67.93	67.93
Is Investment	United Arab Emirates	100.00	100.00	67.93	67.93
İş GYO	Turkey	58.04	58.04	53.10	52.82
Yatırım Finansman	Turkey	96.57	96.57	47.34	47.29
İş B Tipi Yatırım Ortaklığı A.Ş.	Turkey	36.61	36.61	23.31	22.97
Camiş Menkul Değerler A.Ş.	Turkey	100.00	100.00	67.92	67.91
İş Girişim	Turkey	57.67	57.67	34.88	34.57
İş Portföy	Turkey	100.00	100.00	66.91	66.72
TSKB GYO	Turkey	60.33	60.33	29.45	29.42
Maxis Investments Ltd.	England	100.00	100.00	67.93	67.93
Efes Varlık	Turkey	100.00	100.00	65.65	65.62

(*)These companies were founded in 2013.
(**)These companies were acquired in 2013 and detailed information regarding the acquisitions have been included in Note 6.
(***)The name of OOO Ruscam Kirishi was changed to OOO Ruscam Glass Packaging on 1 July 2013 and OOO Ruscam Holding merged with OOO Ruscam Glass Packaging on 1 October 2013.
(****)Paşabahçe Cam Sanayii ve Tic. A.Ş. and Paşabahçe Eskişehir Cam Sanayii ve Tic. A.Ş., subsidiaries of the Group, were merged on 31 January 2013. Paşabahçe Cam San. ve Tic. A.Ş. transferred total shares of Paşabahçe Eskişehir Cam Sanayii and Tic. A.Ş. to current shareholders of Paşabahçe Eskişehir Cam Sanayii and Tic. A.Ş.
(*****)This company has a production line operating under glassware segment. Including the logistic activities, all the operations of Trakya Glass Logistics EAD, which is a subsidiary of Trakya Glass Bulgaria EAD by 100%, ceased and the procedures relating to its merger with its only shareholders, Trakya Glass Bulgaria EAD was completed as of 12 September 2013.
(******)Antgıda Gıda Tarım Turizm Enerji ve Demir Çelik San Tic A.Ş has been classified under 'non-current assets held for sale'.
(*******)The Group owned 86.90% shares, which equals to TL 77,776, of the Bayek Tedavi Sağlık Hizmetleri ve İşletmeciliği A,Ş,'s capital with the amount of TL 89,500, All shares, and The Group owned 99.98% shares, which equals to TL 18,627, of the Mipaş Mümessillik İthalat İhracat ve Pazarlama A.Ş.'s capital with the amount of TL 18,630, all shares, owned by the Group, has been sold to Nemtaş Nemrut Liman İşletmeleri A,Ş, with the value of TL 127,315 and TL 87,010 the sales amount has been paid in advance, As a result of this sales process, sales profit has been made with the amount of TL 913 and TL 55,663.

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

3. Significant accounting policies (continued)

3.1 Basis of consolidation (continued)

Group entities (continued)

Special purpose entities	Country of Incorporation
TIB Card Receivables Funding Company Limited	England
TIB Diversified Payment Rights Finance Company	England

The following investments in associates and joint ventures which the Group has significant influences have been accounted for using the equity method:

Investment in associates	Country of Incorporation	Ownership %
Adana Otel Projesi Adi Ortaklığı	Turkey	50.00
Arap Türk	Turkey	20.58
Avea	Turkey	9.57
HNG Float Glass Ltd.(*)	India	50.00
İş Koray(**)	Turkey	50.00
Kanyon(**)	Turkey	50.00
OAO Form Mat	Russia	48.46
Omco İstanbul Kalıp Sanayii ve Tic. A.Ş.(**)	Turkey	50.00
OOO Balkum(**)	Russia	50.00
Oxyvit Kimya San. ve Tic. A.Ş.(**)	Turkey	50.00
Nest in Globe B.V. (**)	Netherlands	50.00
Rudnika Krecnjaka Vijenac D.O.O. Lukavac(**)	Bosnia Herzegovina	50.00
Saint Gobain Glass Egypt S.A.E.	Egypt	30.82
Solvay Şişecam Holding AG ("Solvay Şişecam")	Austria	25.00

(*)The company was acquired in 2013.
(**)As a result of IFRS 11 "Joint Arrangements", the Group has changed its accounting policy for its interest in joint arrangements, whereas the effect has been evaluated as insignificant and these investees are consolidated through proportionate consolidation in comparative periods.

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

3. Significant accounting policies (continued)

3.2 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are generally recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognised directly in equity. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to TL at foreign exchange rates ruling at the reporting date. The income and expenses of foreign operations are translated to TL at exchange rates approximating to the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. However, if the operation is a non-wholly-owned subsidiary, then the relevant proportionate share of the translation difference is allocated to the non-controlling interests. When a foreign operation is disposed of such that control, significant influence is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payables to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the foreign currency translation reserve.

As at 31 December 2013 and 2012 foreign currency assets and liabilities of the Group are mainly in US Dollar (“USD”), Euro and GBP. The TL/USD, TL/Euro and TL/GBP exchange rates as at 31 December 2013 and 2012 are as follows:

	31 December 2013		31 December 2012	
	Period end	Average	Period end	Average
TL / USD	2.1125	1.8843	1.7850	1.7860
TL / Euro	2.9068	2.5032	2.3526	2.2951
TL / GBP	3.4856	2.9490	2.8917	2.8292

3. Significant accounting policies (continued)

3.3 Interest

Interest income and expense are recognised in the profit or loss 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. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instruments, but not future credit losses.

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

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

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

3.4 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 Note 3.27) are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised 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.

3.5 Net trading income

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

3.6 Dividends

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

3. Significant accounting policies (continued)

3.7 Manufacturing and other operations revenue

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

Sales of the goods

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

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

Services provided

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

Rent income from investment properties

Rent income generated during the period from investment properties are recognised on an accrual basis. Revenue can only be realised if the amount is reliably measured and the inflow of the economic benefits related with the transaction to the Group is probable.

3.8 Financial assets and financial liabilities

Recognition

The Group initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at 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.

3. Significant accounting policies (continued)

3.8 Financial assets and financial liabilities (continued)

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. On derecognition of a financial asset, the difference between the carrying amount of the asset or the carrying amount allocated to the portion of the asset transferred, and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

The Group derecognises financial liabilities when its contractual obligations are discharged, cancelled or expired.

Offsetting

Financial assets and liabilities are offset and the net amount is presented in the separate 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 realise the asset and settle the liability simultaneously.

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

Amortised cost measurement

Amortised cost is calculated by taking into account all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process.

Fair value measurement

Policy applicable from 1 January 2013

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance riskf.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

3. Significant accounting policies (continued)

3.8 Financial assets and financial liabilities (continued)

Fair value measurement (continued)

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Policy applicable before 1 January 2013

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Group establishes fair value using a valuation technique. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price – i.e. the fair value of the consideration given or received. However, in some cases the initial estimate of fair value of a financial instrument on initial recognition may be different from its transaction price. If this estimated fair value is evidenced by comparison with other observable current market transactions in the same instrument (without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets, then the difference is recognised in profit or loss on initial recognition of the instrument. In other cases, the fair value at initial recognition is considered to be the transaction price and the difference is not recognised in profit or loss immediately but is recognised over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

Identification and measurement of impairment

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

3. Significant accounting policies (continued)

3.8 Financial assets and financial liabilities (continued)

Assets carried at amortised cost

In determining whether an impairment loss should be recorded profit or loss, the Group makes judgements 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:

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

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

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised 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 loan's original effective interest rate. The estimated recoverable amount of a collateralized financial asset is measured based on the amount that is expected to be realised 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 recognised in profit or loss.

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 recognised 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.

3. Significant accounting policies (continued)

3.8 Financial assets and financial liabilities (continued)

Identification and measurement of impairment (continued)

Assets carried at amortised cost (continued)

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for Group 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.

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

Assets carried at fair value

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 amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to profit or loss. Impairment losses recognised in profit or loss on equity instruments classified as available for sale are not reversed through statement of profit or loss.

Reversals of impairment losses on debt instruments are reversed through profit or loss; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

3.9 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, unrestricted balances held with central banks and highly liquid financial assets original maturities of less than three months, which are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

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

3.10 Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking. Derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss. The Group did not reclassify any trading assets and liabilities subsequent to their initial recognition.

3. Significant accounting policies (continued)

3.11 Loans and advances

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

3.12 Investment securities

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

Financial Assets Held for Trading

Financial assets held for trading are those acquired for the purpose of generating profit from short term market fluctuations in prices or similar elements, or securities which are part of a portfolio set up to realize short term profit regardless of the purpose of acquisition.

Financial Assets Held for Trading is presented in the balance sheet with their fair values and is subject to valuation at fair values after the initial recognition. In cases where values that form the basis for the fair value do not exist in active market conditions, it is accepted that the fair value is not reliably determined and "amortized cost", calculated by the internal rate of return method, is taken into account as the fair value.

Any gains or losses resulting from such valuation are recorded in the profit and loss accounts. In frame of legal regulations, any positive difference between the historical cost and amortized cost of financial assets are recognized under the "Interest Income" account, and in case the fair value of the asset is over the amortized cost, the positive difference is recognized in the "Gains on Securities Trading" account. If the fair value is less than the amortized cost, the negative difference is recognized under the "Losses on Securities Trading" account. Any profit or loss resulting from the disposal of those assets before their maturity date is recognized within the framework of the same principles

Financial Assets Available for Sale

Financial assets available for sale represent non-derivative financial assets other than bank loans and receivables, held to maturity investments and financial assets at fair value through profit and loss. Initial recognition and subsequent valuation of financial assets available for sale are performed based on the fair value including transaction costs. The amount arising from the difference between cost and amortized value is recognized through income statement by using the internal rate of return. If a price does not occur in an active market, fair value cannot be reliably determined and "Amortized Value" is determined as the fair value using the internal rate of return. Unrealized gains and losses arising from changes in fair value of the financial assets available for sale are not recognized in the income statement, they are recognized in the "Marketable Securities Revaluation Fund" until the disposal, sale, redemption or incurring loss of those assets. Fair value differences accounted under equity arising from the application of fair value are reflected to the income statement when these assets are sold or when the valuation difference is collected.

3. Significant accounting policies (continued)

3.12 Investment securities

Held to maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity that management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investments intended to be held for an undefined period are not included in this classification. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and put restrictions on the Group for classifying investment securities as held-to-maturity for the current and the following two financial years. There has been no tainting in the held-to-maturity portfolio during 2013 and 2012.

Held to maturity investments are subsequently measured at amortised cost using the effective interest method, less any impairment in value.

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

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

3.13 Repurchase transactions

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

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

3.14 Trade receivables

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

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

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

3. Significant accounting policies (continued)

3.15 Inventories

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

3.16 Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

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

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property, plant and equipment, and are recognised net within the other operating income or other operating expense in profit or loss.

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

Subsequent costs

The cost of replacing a part of an item of property, plant or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- Buildings 4 – 50 years
- Fixtures and fittings 2 – 20 years
- Machinery and equipment 3 – 25 years
- Leasehold improvements 4 – 15 years
- Motor vehicles 3 – 15 years
- Vessels 18 years

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

3. Significant accounting policies (continued)

3.16 Property, plant and equipment (continued)

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognizing of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

3.17 Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost less accumulated depreciation and any accumulated impairment losses. Estimated useful lives of investment properties and depreciation rates are 50 years and 2%, respectively.

Cost includes expenditure that is directly attributable to the acquisition of the investment property.

Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of an item) is recognized in profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

3.18 Intangible assets

Goodwill

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

<u>Acquisitions of non-controlling interests</u>

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

<u>Subsequent measurement</u>

Goodwill is measured at cost less accumulated impairment losses.

3. Significant accounting policies (continued)

3.18 Intangible assets (continued)

Intangible assets acquired

Intangible assets acquired separately are carried at cost, less accumulated amortisation and any accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. Estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in the estimate being accounted for on a prospective basis. The related costs are amortised at between 1 and 15 years based on their economic lives.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. Software is amortised on a straight line basis in profit or loss over its estimated useful life, from the date that it is available for use. The estimated useful life of software for the current and comparative periods is one to five years.

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits, are recognised as intangible assets. Costs include software development employee costs and an appropriate portion of relevant overheads. Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding five years).

Intangible assets acquired in a business combination

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

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

Mining assets

Development costs incurred to evaluate and develop new ore bodies, or to define mineralization in existing ore bodies, or to establish or expand productive capacity or to maintain production are capitalized. Mine development costs are capitalized to the extent they provide probable access to mine bearing reefs, have future economic benefits and they are attributable to an area of interest or those that can be reasonably allocated to the area of interest. Development costs include sinking shafts, construction of underground galleries, roads and tunnels. Where revenue from mine sales is recognised in the statements of comprehensive income, costs incurred during commissioning period which are directly attributable to developing the operating capability of the mine, are capitalized and only the costs that represent costs of producing mine is recognised in the statement of comprehensive income. In cases where it is difficult to separate the research phase from the development phase in a project, the entire project is treated as research and recorded as expense to the statement of comprehensive income.

3. Significant accounting policies (continued)

3.18 Intangible assets (continued)

Mining assets (continued)

The depreciation starts when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by the management. Development costs incurred during the production phase are capitalized and depreciated to the extent that they have future economic benefits. The development cost is allocated at initial recognition to its significant components and each component is depreciated separately by units of production method, considering the attributable area of interest. The major overhauls that extend the future economic benefits throughout the life of mine are capitalized as future benefits will flow to the Group. Other than major overhauls, repairs are expensed as incurred.

Depreciation and amortisation of development costs are calculated principally by the units of production method based on estimated proven and probable reserves of attributable area of interests. In accordance with the unit of production method, the depreciation charge of development costs are calculated by dividing the number of tons of ore extracted during the period to the remaining proven and probable mine reserves in terms of tons for attributable area of interest. To the extent that these costs benefit the entire ore body or area of interest, they are amortised over the estimated life of the ore body or area of interest. Proven and probable ore reserves reflect estimated quantities of economically recoverable reserves which can be recovered in future from known mineral deposits in the attributable area of interest.

Mineral and surface rights are recorded at acquisition cost and amortised principally by the units of production method based on estimated proven and probable reserves. In accordance with the unit of production method, the amortisation charge of mineral and surface rights are calculated by dividing the amount of ore extracted during the period to the remaining proven and probable mine reserves in terms of ton.

Development costs

Costs incurred on development projects relating to the design and testing of new or improved products are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development expenditures previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalized are amortised from the commencement of the commercial production of the product on a straight-line basis in five years.

3.19 Non-current assets held for sale

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

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

3. Significant accounting policies (continued)

3.20 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 then the asset's recoverable amount is estimated. Goodwill and indefinite-lived intangible assets are tested annually for impairment or more often if there are indications of impairment.

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. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units. The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. 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.

3.21 Leases

The Group as the lessee

<u>*Operating leases*</u>

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

<u>*Finance leases*</u>

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

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

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

3. Significant accounting policies (continued)

3.21 Leases (continued)

The Group as the lessor

<u>Operating leases</u>

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

<u>Finance leases</u>

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

3.22 Financial liabilities

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Financial liabilities are classified as either equity instruments or other financial liabilities.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial liabilities related with non-controlling interest shares put options are reflected to financial statements in conformity with their discounted value with their own redemption plan. Discounted value of the financial liability which is the subject of the put option is assumed as the fair value of the financial asset.

Other financial liabilities

Other financial liabilities, including borrowings, deposits, debt securities issued and subordinated liabilities are the Group's sources of debt funding.

Borrowings, deposits, debt securities issued and subordinated liabilities are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

When the Group sells a financial asset and simultaneously enters into an agreement to repurchase the asset (or a similar asset) at a fixed price on a future date, the arrangement is accounted for as an obligation under repurchase agreement, and the underlying asset continues to be recognized in the Group's financial statements.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset in the period in which the asset is prepared for its intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. Significant accounting policies (continued)

3.23 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.

3.24 Employee benefits

Pension and other post-retirement obligations

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.

Pension fund transferable to Social Security Institution

Employees of the Bank are members of Türkiye İş Bankası A.Ş. Mensupları Emekli Sandığı Vakfı, employees of Milli Reasürans are members of "Milli Reasürans Türk Anonim Şirketi Emekli ve Sağlık Sandığı Vakfı, employees of TSKB are member of "Türkiye Sınai Kalkınma Bankası Memur ve Müstahdemleri Yardım ve Emekli Vakfı" and employees of Anadolu Sigorta are members of "Anadolu Anonim Türk Sigorta Şirketi Memurları Emekli Sandığı" (collectively "the Funds"), which are established in accordance with the temporary Article 20 of the Social Security Act No: 506 and separate legal entities and foundations recognised by an official decree, providing all qualified employees with pension and post-retirement benefits.

As explained in Note 30, the Bank expects to transfer the obligation of the Funds to Social Security Institution. This transfer will be a settlement of the Funds' obligation. Final legislation establishing the terms for such transfer was enacted on 8 May 2008. Although the settlement will not be recognised until the transfer is made, the Group believes that it is more appropriate to measure the obligation at 31 December 2013 as the value of the payment that would need to be made to Social Security Institution to settle the obligation at the date of the statement of financial position in accordance with the new law "Amendments to the Social Security and General Health Insurance Act Including Certain Laws and Decrees". The pension disclosures set out in Note 30, therefore reflect the actuarial assumptions and mortality tables specified in the new law, including a discount rate of 9.8%. The pension benefits transferable to Social Security Institution are calculated annually by an independent actuary, who is registered with the Undersecretariat of the Treasury.

Retirement pay liability

In accordance with the existing labour law in Turkey, the Group entities operating in Turkey are required to make lump-sum payments to employees who have completed one year of service and whose employment is terminated without cause or who retire, are called up for military service or die. Such payments are calculated on the basis of 30 days' pay maximum of pay ceiling announced by the Government per year of employment at the rate of pay applicable at the date of retirement or termination. Reserve for retirement pay is computed and reflected in the consolidated financial statements on a current basis. The management of the Group used some assumptions (detailed in Note 30) in the calculation of the retirement pay provision.

3. Significant accounting policies (continued)

3.24 Employee benefits (continued)

Short-term benefits

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

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

3.25 Trade and other payables

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

3.26 Income tax

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.

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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 utilised.

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 realised.

The Turkish tax legislation does not permit a parent company and its subsidiaries to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

3. Significant accounting policies (continued)

3.27 Insurance and reinsurance businesses

Through its insurance and reinsurance 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. Reinsurance risk is defined as a possibility of financial loss due to inappropriate and insufficient application of reinsurance techniques in the activities of taking insurance contract responsibility partially or completely.

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 and reinsurance subsidiaries are accounted for as follows:

Earned premiums: For short-term insurance contracts, premiums are recognised 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 recognised 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 gross of any taxes and duties levied on premiums.

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

Premium received for an investment contract, is not recognised as revenue. Premiums for such contracts are recognised 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 insurance contract liabilities in the accompanying consolidated statement of financial position.

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, health 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 insurance contract liabilities in the accompanying consolidated financial statements.

3. Significant accounting policies (continued)

3.27 Insurance and reinsurance businesses

Investment contracts: Premiums received for such contracts are recognised 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.

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 recognised, the first step is to reduce any intangible item arising from business combinations related to insurance. If there is still a loss remaining, then 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.

Income generated from pension business: Revenue arising from asset management and other related services offered by the insurance affiliate of the Bank are recognised in the accounting period in which the service is rendered. Fees consist primarily of investment management fees arising from services rendered in conjunction with the issue and management of investment contracts where the company actively manages the consideration received from its customers to fund a return that is based on the investment profile that the customer selected on origination of the instrument. These services comprise the activity of trading financial assets in order to reproduce the contractual services. In all cases, these services comprise an indeterminate number of acts over the life of the individual contracts.

Claims are recorded in the year in which they occur, based on reported claims or on the basis of estimates when not reported. Provision 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. Incurred but not reported claims ("IBNR") are also provided. Claims incurred before the accounting periods but reported subsequent to those dates are considered as incurred but not reported ("IBNR") claims.

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. In the accompanying consolidated financial statements, provision for claims is presented gross of amounts recoverable from reinsurers. 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.

3. Significant accounting policies (continued)

3.27 Insurance and reinsurance businesses (continued)

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. 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 each claim file basis. General insurance claims provisions are not discounted for the time value of money. The reserve for outstanding claims is presented under insurance contract liabilities in the accompanying consolidated statement of financial position.

As at 1 January 2012, 100% of the calculated negative IBNR balances per each insurance branch are taken into calculation in accordance with the Circular issued by the Turkish Treasury dated 26 December 2011 and numbered 2011/23. Accrued salvage, subrogation and similar income are taken into calculation with collections in ACLM method.

3.28 Construction contracts

Contract costs are recognised as expenses in the period in which they are incurred. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

The Group uses the 'percentage-of-completion method' to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within other assets. The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses) under other liabilities.

3.29 Government grants

Grants from the government are recognised at fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all the required conditions (Note 46).

Government grants related to costs are accounted as income on a consistent basis over the related periods with the matching costs.

Government grants relating to property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the statement of income on a straight-line basis over the expected lives of the related assets.

3. Significant accounting policies (continued)

3.29 Government grants (continued)

Expenses regarding industries having research and development quality projects which were qualified by expert organizations are reviewed and evaluated so that specific proportion of these expenses are considered as grants or are given support on the condition of payback within the context of the decision no: 94/6401 made on the government grants for exporting activities in accordance with the Money Credit Coordination Board's Communiqué No: 98/10 on Research and Development Grants published by the Under Secretariat of Foreign Trade based on the decision no: 98/16 made as at 9 September 1998.

Exporting activities and other foreign currency generating operations, within the scope of the standards determined by the Ministry of Finance and Undersecretaries of Foreign Trade, are exempt from stamp tax and fees. Government grants are paid to support participating in international fairs in accordance with the decision No: 2004/11 of the Money Credit and Coordination Committee issued at 16 December 2004.

3.30 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.

3.31 Earnings per share

Earnings per share from continuing operations disclosed in the accompanying consolidated statement of 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. 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.

3.32 Events after the reporting period

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

3.33 Segment reporting

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

3.34 Onerous contracts

A contract is considered onerous when the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received by the Group. Present obligations arising under onerous contracts are measured and recognized as a provision.

Possible assets or obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are not included in the consolidated financial statements and treated as contingent assets or liabilities.

3. Significant accounting policies (continued)

3.35 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2013 for annual periods beginning after 1 January 2014, 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 – Classification and measurement

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

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.

The amendments will be effective for annual periods beginning on or after 1 January 2018.

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

IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial liabilities (Amended)

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

.

4. Financial risk management

4.1 Introduction and overview

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

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

This note presents information about the 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.

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. At the same time, studies for compliance with the international banking applications are carried out.

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.

4. Financial risk management (continued)

4.1 Introduction and overview (continued)

The Group's strategy for the use of financial instruments

The Group's main activities comprise private, retail, commercial and corporate banking, money market, securities market operations and activities related to international banking services, as well as insurance, leasing and manufacturing operations.

Parallel to the general liability structure of the system, the Group's liabilities are composed of short-term deposits and other middle and long-term resources. The liquidity risk, which may be caused by this status, can easily be controlled through deposit sustainability, as well as widespread network of correspondent banks, market maker status (the Bank is one of the market maker banks) and by the use of liquidity facilities of the Central Bank of Turkey. In this regard, the liquidity of the Group is constantly monitored. On the other hand, demand for foreign currency liquidity is met by money market operations and money swaps.

Since major part of the loans in the asset side is flexible enough to reflect the volatility in the market interest rates to the customers, the interest rate risk is kept at minimum level. High yielding Eurobond and government debt securities have sufficient quality and capacity to reduce the risk which may be caused by the fluctuations in the interest rates. Funds collected are, to a great extent, fixed-interest rated. Sectoral developments are closely monitored and both fixed and floating rated placements are made according to the yields of alternative investment instruments. Some part of the funds is transferred to the Treasury guaranteed projects. In terms of placements, security principle has always been the priority of the Bank and the placements are oriented to high yielding and low risk assets by considering their maturity structure. Accordingly, a pricing policy that aims high return is implemented in long-term placements.

Placements to loans and marketable securities are the fields with higher yields than the average return calculated for the Group's field of activities.

The Group determines its lending strategy by taking into consideration the international and national economic data and expectations, market conditions, current and potential credit customers' expectations and tendencies, and the risks like interest rate, liquidity, currency and credit risks. Furthermore, parallel to this strategy, the Group acts within the legal limits in terms of asset-liability management.

Main growth targets for different asset classes are set by long-term plans, which are shaped along with budgeting; and the bank takes necessary position in accordance with the said plans and the course of the market conditions against the short-term currency, interest rates and price movements.

Foreign currency, interest rate and price movements are monitored instantaneously. When taking position, the Group's own transaction and control limits are also effectively monitored in addition to the legal limits and limit overrides are avoided. Besides the Bank's asset-liability management is executed by the Asset-Liability Management Committee, within the risk limits determined by the Risk Committee, in order to keep the liquidity risk (within the boundaries of the equity), interest rate risk, currency risk and credit risk within certain limits and to maximize profitability.

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

4. Financial risk management (continued)

4.2 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.

For risk management reporting purposes the Group considers and consolidates all elements of credit risk exposure.

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		**Trade receivables**		**Other assets expose to credit risk (*)**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Individually impaired	2,629,472	2,282,245	42,753	40,450	136,619	115,761
Allowance for specific impairment	(1,401,941)	(1,211,145)	(42,753)	(40,450)	(136,619)	(115,761)
Carrying amount	**1,227,531**	**1,071,100**	**--**	**--**	**--**	**--**
Past due but not impaired	1,096,085	1,151,519	228,392	246,917	--	--
Carrying amount	**1,096,085**	**1,151,519**	**228,392**	**246,917**	**--**	**--**
Neither past due nor impaired	141,060,088	112,543,186	1,897,319	1,408,855	179,997,970	149,281,143
Financial assets with renegotiated terms	4,742,667	2,424,706	--	--	--	--
Carrying amount	**145,802,755**	**114,967,892**	**1,897,319**	**1,408,855**	**179,997,970**	**149,281,143**
Portfolio allowance for impairment on loans	(1,263,299)	(1,266,713)	--	--	--	--
Total carrying amount	**146,863,072**	**115,923,798**	**2,125,711**	**1,655,772**	**179,997,970**	**149,281,143**

(*) Non-cash loans, commitments convertible to loans and derivative transactions are also included.

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

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

4. Financial risk management (continued)

4.2 Credit risk (continued)

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

• are offset in the Group's statement of financial position; or

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

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

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

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

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

					Related amounts not offset in the statement of financial position		
	Types of financial assets	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments (including non-cash collateral)	Cash collateral received	Net amount
31 December 2013	Derivatives - trading assets	1,288,834	--	1,288,834	--	1,288,834	--
31 December 2012	Derivatives - trading assets	642,523	--	642,523	--	642,523	--

					Related amounts not offset in the statement of financial position		
	Types of financial assets	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities offset in the statement of financial position	Net amounts of financial assets presented in the statement of financial position	Financial instruments (including non-cash collateral)	Cash collateral received	Net amount
31 December 2013	Derivatives - trading assets	1,201,500	--	1,201,500	--	1,201,500	--
31 December 2012	Derivatives - trading assets	760,440	--	760,440	--	760,440	--

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

4. Financial risk management (continued)

4.2 Credit risk (continued)

The aging analysis of the loans past due but not impaired is as follows:

	2013	2012
Up to 30 days	791,916	877,812
31- 60 days	204,242	181,800
61-90 days	97,645	89,804
91 days and above	2,282	2,103
	1,096,085	**1,151,519**

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 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. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

The Group writes 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.

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

4. Financial risk management (continued)

4.2 Credit risk (continued)

Sectoral distribution of the performing loans and advances to customers

	2013	2012
Consumer loans	28,905,332	22,605,534
Mortgage loans	*11,924,662*	*9,542,761*
General purpose loans	*13,512,503*	*8,029,048*
Overdraft checking accounts	*328,945*	*298,359*
Auto loans	*1,312,758*	*1,317,542*
Other consumer loans	*1,826,464*	*3,417,824*
Manufacturing	37,356,172	29,785,710
Wholesale and retail trade	20,512,557	16,884,180
Credit cards	11,019,640	8,717,965
Transportation and telecommunication	9,130,373	8,215,967
Financial institutions	6,281,615	5,163,890
Construction	10,490,710	6,766,562
Hotel, food and beverage services	3,910,616	2,975,906
Agriculture and stockbreeding	1,801,396	1,275,981
Health and social services	1,036,697	878,825
Others	16,453,732	12,848,891
Total performing loans and advances to customers	**146,898,840**	**116,119,411**

Sectoral distribution of the non-cash loans

	2013	2012
Manufacturing	18,655,836	14,021,465
Wholesale and retail trade	6,862,101	5,395,627
Construction	5,807,195	4,147,178
Transportation and telecommunication	1,965,957	1,388,045
Financial institutions	1,500,266	1,829,423
Real estate and rental services	1,258,206	524,722
Self-employed services	653,329	606,622
Hotel, food and beverage services	185,989	136,524
Health and social services	166,011	73,594
Agriculture and stockbreeding	159,637	159,640
Others	2,555,525	1,814,367
Total	**39,770,052**	**30,097,207**

Factoring receivables based on types of factoring transactions

	2013	2012
Domestic revocable	422,489	350,562
Domestic irrevocable	351,981	613,498
Foreign revocable	138,113	19,120
Foreign irrevocable	11,967	8,816
Factoring receivables	**924,550**	**991,996**

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

4. Financial risk management (continued)

4.2 Credit risk (continued)

Leased equipment allocation of finance lease receivables is as follows:

	2013 (%)	2012 (%)
Real estate	28.98	22.90
Machinery and equipment	22.03	25.71
Building and construction machinery	17.91	15.93
Air transportation equipments	6.28	4.66
Sea transport vessels	4.50	5.52
Textile machinery	4.39	5.19
Medical equipment	3.57	5.00
Electronic and optical equipment	3.47	3.28
Printing machinery	2.08	3.31
Tourism equipment	2.08	2.81
Road transportation equipments	1.52	1.88
Office equipments	1.18	1.80
Other	2.01	2.01
	100.00	**100.00**

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

	Loans and advances to customers		Trade receivables		Other assets	
2013	**Gross**	**Net**	**Gross(*)**	**Net(*)**	**Gross(*)**	**Net(*)**
Grade 3 : Individually Impaired	292,263	150,802	--	--	--	--
Grade 4 : Individually Impaired	498,340	233,327	--	--	--	--
Grade 5 : Individually Impaired	1,838,869	843,402	42,753	--	136,619	--
Total	**2,629,472**	**1,227,531**	**42,753**	**--**	**136,619**	**--**

	Loans and advances to customers		Trade receivables		Other assets	
2012	**Gross**	**Net**	**Gross(*)**	**Net (*)**	**Gross(*)**	**Net(*)**
Grade 3 : Individually Impaired	281,477	58,745	--	--	--	--
Grade 4 : Individually Impaired	455,384	95,058	--	--	--	--
Grade 5 : Individually Impaired	1,545,384	917,297	40,450	--	115,761	--
Total	**2,282,245**	**1,071,100**	**40,450**	**--**	**115,761**	**--**

(*)Impaired insurance receivables, trade receivables and securities portfolio consist of non-rated customers which are presented as "Grade 5" in above table.

Collateral policy

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

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

4. Financial risk management (continued)

4.2 Credit risk (continued)

An estimate of the fair value of collateral and other security enhancements held against closely monitored loans and advances to customers as follows(*):

	2013	2012
Secured closely monitored loans:	1,381,195	1,110,984
Secured by mortgages	*634,341*	*608,935*
Vehicle pledge	*109,640*	*140,837*
Secured by cash collateral	*238,303*	*178,001*
Other (surety, commercial enterprise under pledge etc.)	*398,911*	*183,211*
Unsecured closely monitored loans	855,323	833,603
Total closely monitored loans and advances to customers	**2,236,518**	**1,944,587**

(*)If the amount of collaterals exceeds the amount of loans during the calculation of collaterals, only the corresponding portion of the loan is included in the below table and the mortgage and/or pledge amounts on which third parties have priorities are deducted from the fair values of collaterals in expertise reports.

As at 31 December 2013 and 2012, the Group has no closely monitored loans and advances to banks, investment securities, trade receivables or other assets.

An estimate of the fair value of collateral held against non-performing loans and advances to customers is as follows(*):

	2013	2012
Secured non-performing loans	612,339	554,019
Secured by cash collateral	*2,235*	*36*
Secured by mortgages	*450,738*	*444,835*
Vehicle pledge	*86,766*	*61,440*
Other (surety, commercial enterprise under pledge etc.)	*72,600*	*47,708*
Unsecured non-performing loans	2,017,133	1,728,226
Total	**2,629,472**	**2,282,245**

(*) The mortgage and/or pledge amounts on which third parties have priorities are deducted from the fair values of collaterals in expertise reports, and after comparing the results to the mortgage/pledge amounts and credit balances the smallest figures are considered to be the net value of collaterals.

Guarantees received from the customers for trade receivables are as follows:

	2013	2012
Letters of guarantee	219,306	263,224
Notes and bills	126,809	69,526
Mortgages	20,625	18,951
Others	8,283	7,761
Total	**375,023**	**359,462**

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

4. Financial risk management (continued)

4.2 Credit risk (continued)

As of 31 December 2013, TL 228,392 (31 December 2012: TL 246,917) of trade receivable amount was past due but not impaired. This relate to a various number of independent customers with no recent history of default. The aging analysis of trade receivable amounts is as follows:

	2013	**2012**
Up to 1 month	138,836	143,759
1-3 months	45,317	63,155
3-12 months	30,315	36,390
1-5 years	13,924	3,613
	228,392	**246,917**

Rating system

Within the framework of the Group's rating and scoring system, classification of the commercial and corporate cash loans is as follows. The Group evaluates;

- its customers, whose General Limit is below USD 60,000 or whose yearly net sales are below USD 1,000,000 with micro scoring,
- its customers whose General Limit is between USD 60,000 and USD 1,000,000 or whose yearly net sales are below USD 5,000,000 with SME scoring,
- its customers whose General Limit is above USD 1,000,000 or whose yearly net sales are above USD 5,000,000 with rating.

The rating/scoring results related to the cash commercial and corporate loans portfolio are classified as "Strong", "Standard" and "Below Standard" by considering their default features. The loans whose borrowers' capacity to fulfill their obligations is very good, are defined as "Strong", whose borrowers' capacity to fulfill its obligations in due time is reasonable, are defined as "Standard" and whose borrowers' capacity to fulfill their obligations is poor, are defined as "Below Standard". The percentage of the portfolio according to the rating/scoring results is as follows:

	2013 (%)	**2012 (%)**
Strong	49.38	51.46
Standard	37.02	33.83
Below standard	4.71	5.99
No rated / scored	8.89	8.72

4. Financial risk management (continued)

4.3 Liquidity risk

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

Management of liquidity risk

Liquidity risk may arise as a result of funding long-term assets with short-term resources. Utmost care is taken to maintain the consistency between the maturities of assets and liabilities; strategies are used to acquire funds over longer terms.

The Bank's main source of funding is deposits. While the average maturity of deposits is shorter than the average maturity of assets as a result of the market conditions, the Bank's wide network of branches and steady core deposit base are its most important safeguards of the supply of funds. The Bank also borrows medium and long-term funds from institutions abroad.

In order to meet the liquidity requirements that may arise due to market fluctuations, the Group analyses TL and FC cash flows projections to preserve liquid assets. The term structure of TL and FC deposits, their costs and movements in the total amounts are monitored on a daily basis, also accounting for developments in former periods and expectations for the future. Based on cash flow projections, prices are differentiated for different maturities and thereby measures are taken to meet liquidity requirements; moreover liquidity that may be required for extraordinary circumstances is estimated and alternative liquidity sources are determined for possible utilization.

Furthermore, foreign currency and total liquidity adequacy ratios, which are subject to weekly legal reporting and calculated separately for 7 and 31 days following the reporting date, and the liquidity adequacy ratios that are calculated based on the stress scenarios built internally by the Bank, are used effectively to manage the liquidity risk.

Evaluated within the framework of the Bank's asset-liability management risk policy, the limits determined related to the liquidity risk management are monitored by the Risk Committee and to avoid extraordinary situations where a quick action should be taken due to the unfavorable market conditions, emergency measures and funding plans related to liquidity risk are put into effect.

As per the Communiqué on "Measurement and Assessment of the Adequacy of Banks' Liquidity", the liquidity ratios that are measured for terms of 7 and 31 days should not be less than 80% and 100%, respectively. Foreign currency liquidity adequacy ratio means the ratio of foreign currency assets to foreign currency liabilities and the total liquidity adequacy ratio means the ratio of total assets to total liabilities.

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

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

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

2013	Demand	Less than one month	1-3 months	3-12 months	1-5 Years	Over 5 years	Carrying amount
Cash and cash equivalents	2,194,664	--	--	--	--	--	2,194,664
Balances with central bank	6,079,490	15,056,665	--	16,496	--	--	21,152,651
Loans and advances to banks	1,097,449	3,000,387	1,168,032	306,995	--	--	5,572,863
Financial assets at fair value through profit or loss	171,317	458,443	436,246	604,510	861,465	381,533	2,913,514
Loans and advances to customers (*)	6,256,309	13,413,153	11,232,810	40,513,068	60,945,528	14,537,972	146,898,840
Trade receivables	803,087	88,516	1,211,377	--	22,731	--	2,125,711
Insurance receivables	547,096	153,791	313,350	483,889	11,986	--	1,510,112
Available for sale investment securities	293,237	721,334	1,008,654	4,796,807	12,842,994	14,634,766	34,297,792
Held to maturity investment securities	--	--	721,197	5,790,441	1,210,312	6,497	7,728,447
Other assets	1,521,741	1,589,977	260,305	7,659	37,578	--	3,417,260
Total assets	**18,964,390**	**34,482,266**	**16,351,971**	**52,519,865**	**75,932,594**	**29,560,768**	**227,811,854**
Deposits	26,090,910	65,261,124	19,609,632	8,479,010	543,008	18,295	120,001,979
Obligations under repurchase agreements	--	21,218,905	94,899	286,022	558,129	437,944	22,595,899
Funds borrowed	--	1,482,517	2,526,698	10,042,144	9,993,315	5,472,832	29,517,506
Debt securities issued	--	1,003,191	1,309,663	2,611,155	5,108,431	1,088,471	11,120,911
Payables to stock exchange money market	--	2,398,975	5,001	--	--	--	2,403,976
Trade payables	1,271,933	228,183	694,523	273,859	6,052	--	2,474,550
Taxes and dues payable	--	14,613	315,812	--	--	--	330,425
Corporate tax liability	--	--	18,665	178,975	--	--	197,640
Insurance contract liabilities	4,611,012	105,908	211,816	149,539	221,208	--	5,299,483
Subordinated liabilities	--	--	--	185,470	998,503	1,906,929	3,090,902
Other liabilities	40,267	4,134,142	1,505,994	2,468,741	178,174	35,990	8,363,308
Total liabilities	**32,014,122**	**95,847,558**	**26,292,703**	**24,674,915**	**17,606,820**	**8,960,461**	**205,396,579**
Net	**(13,049,732)**	**(61,365,292)**	**(9,940,732)**	**27,844,950**	**58,325,774**	**20,600,307**	**22,415,275**

(*) Non-performing loans and allowance for impairment are not included.

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

4 Financial risk management (continued)

4.3 Liquidity risk (continued)

Maturity analysis of financial assets and liabilities according to their remaining maturities (continued)

2012	Demand	Less than one month	1-3 months	3-12 months	1-5 Years	Over 5 years	Carrying amount
Cash and cash equivalents	1,682,399	--	--	--	--	--	1,682,399
Balances with central bank	2,995,776	11,304,951	--	30,940	--	--	14,331,667
Loans and advances to banks	927,885	2,025,187	1,749,438	80,507	--	--	4,783,017
Financial assets at fair value through profit or loss	325,397	299,869	337,979	518,063	536,276	179,806	2,197,390
Loans and advances to customers (*)	11,724,163	13,182,064	8,374,466	27,537,637	44,776,152	10,524,929	116,119,411
Trade receivables	544,403	81,277	994,521	8,502	27,069	--	1,655,772
Insurance receivables	1,037,516	67,722	52,847	114,530	604	--	1,273,219
Available for sale investment securities	260,416	1,384,249	486,629	4,760,330	14,076,562	11,209,321	32,177,507
Held to maturity investment securities	--	511,325	11	3,158,594	7,374,212	6,031	11,050,173
Other assets	1,500,498	817,681	243,667	16,254	270,988	--	2,849,088
Total assets	**20,998,453**	**29,674,325**	**12,239,558**	**36,225,357**	**67,061,863**	**21,920,087**	**188,119,643**
Deposits	21,315,861	55,431,588	20,582,366	6,600,698	597,294	26,620	104,554,427
Obligations under repurchase agreements	--	13,576,788	6,708	378,571	469,114	394,289	14,825,470
Funds borrowed	--	1,235,973	760,953	8,319,612	6,392,786	4,424,839	21,134,163
Debt securities issued	--	970,231	1,618,962	1,964,714	1,914,249	--	6,468,156
Payables to stock exchange money market	--	1,918,188	282,216	--	--	--	2,200,404
Trade payables	638,480	574,065	81,242	17,939	6,368	--	1,318,094
Taxes and dues payable	--	12,266	275,668	--	--	--	287,934
Corporate tax liability	--	--	3,781	411,400	--	--	415,181
Insurance contract liabilities	4,541,470	88,430	176,862	64,658	159,400	--	5,030,820
Subordinated liabilities	--	--	--	103,591	447,277	1,342,708	1,893,576
Other liabilities	705,026	3,907,519	1,353,643	2,279,167	85,064	36,658	8,367,077
Total liabilities	**27,200,837**	**77,715,048**	**25,142,401**	**20,140,350**	**10,071,552**	**6,225,114**	**166,495,302**
Net	**(6,202,384)**	**(48,040,723)**	**(12,902,843)**	**16,085,007**	**56,990,311**	**15,694,973**	**21,624,341**

(*) Non-performing loans and allowance for impairment are not included.

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

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

Residual contractual maturities of the financial liabilities

2013	Carrying amount	Gross nominal (inflow) / outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Non-derivative liabilities								
Deposits	120,001,979	120,542,103	26,090,009	65,451,946	19,771,432	8,618,391	587,059	23,266
Obligations under repurchase agreements	22,595,899	22,689,636	--	21,220,910	99,038	299,797	623,117	446,774
Funds borrowed	29,517,506	31,436,019	--	811,470	2,210,801	11,524,678	10,715,751	6,173,319
Debt securities issued	11,120,911	13,964,389	--	1,007,327	1,383,400	2,998,876	5,050,897	3,523,889
Payables to stock exchange money market	2,403,976	2,409,955	--	2,157,493	252,462	--	--	--
Trade payables	2,474,550	2,476,862	675,967	507,793	978,194	310,342	4,566	--
Insurance contract liabilities	5,299,483	5,299,483	5,299,483	--	--	--	--	--
Subordinated liabilities	3,090,902	3,360,009	--	--	--	126,750	740,509	2,492,750
Total	**196,505,206**	**202,178,456**	**32,065,459**	**91,156,939**	**24,695,327**	**23,878,834**	**17,721,899**	**12,659,998**
Derivative liabilities								
Inflow	(1,288,834)	(48,972,232)	--	(16,946,511)	(7,104,651)	(9,205,924)	(12,617,725)	(3,097,421)
Outflow	1,201,500	48,347,339	--	16,893,774	6,844,044	9,068,480	12,443,643	3,097,398
Total	**(87,334)**	**(624,893)**	**--**	**(52,737)**	**(260,607)**	**(137,444)**	**(174,082)**	**(23)**

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

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

Residual contractual maturities of the financial liabilities (continued)

2012	Carrying amount	Gross nominal (inflow) / outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Non-derivative liabilities								
Deposits	104,554,427	105,088,594	21,315,861	55,583,682	20,763,801	6,738,763	651,165	35,322
Obligations under repurchase agreements	14,825,470	14,947,610	--	13,588,149	7,936	395,322	544,922	411,281
Funds borrowed	21,134,163	22,733,066	--	1,294,025	951,597	8,804,150	6,911,205	4,772,089
Payables to stock exchange money market	6,468,156	7,051,206	--	974,498	1,821,451	2,251,865	2,003,392	--
Debt securities issued	2,200,404	2,206,302	--	1,922,267	284,035	--	--	--
Trade payables	1,318,094	1,346,594	638,480	575,365	95,094	30,908	6,747	--
Insurance contract liabilities	5,030,820	5,030,820	5,030,820	--	--	--	--	--
Subordinated liabilities	1,893,576	2,959,209	--	--	--	110,587	528,122	2,320,500
Total	**157,425,110**	**161,363,401**	**26,985,161**	**73,937,986**	**23,923,914**	**18,331,595**	**10,645,553**	**7,539,192**
Derivative liabilities								
Inflow	(642,523)	(36,720,626)	--	(11,884,957)	(3,296,696)	(9,616,730)	(9,558,628)	(2,363,615)
Outflow	760,440	35,509,264	--	11,065,081	3,237,384	9,333,507	9,509,723	2,363,569
Total	**117,917**	**(1,211,362)**	**--**	**(819,876)**	**(59,312)**	**(283,223)**	**(48,905)**	**(46)**

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.

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

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

Residual maturities of non-cash loans

	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
2013							
Letters of credit	3,049,754	389,595	772,079	2,344,750	149,655	197,324	6,903,157
Letters of guarantee	17,598,231	620,831	1,653,869	5,632,291	4,233,410	876,618	30,615,250
Acceptance	26,160	282,825	191,936	964,702	29,323		1,494,946
Other	9,235	62,808	64,494	77,049	50,385	492,728	756,699
Total	**20,683,380**	**1,356,059**	**2,682,378**	**9,018,792**	**4,462,773**	**1,566,670**	**39,770,052**
2012							
Letters of credit	2,043,692	454,640	657,179	1,604,296	144,711	315,968	5,220,486
Letters of guarantee	13,506,229	664,166	1,349,647	3,997,469	3,025,066	404,884	22,947,461
Acceptance	45,351	168,374	343,971	698,964	41,590	--	1,298,250
Other	28,863	88,260	39,889	54,413	42,850	376,735	631,010
Total	**15,624,135**	**1,375,440**	**2,390,686**	**6,355,142**	**3,254,217**	**1,097,587**	**30,097,207**

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

4. Financial risk management (continued)

4.4 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 optimising 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 Standard Approach according to the legal legislation. The monthly market risk report and the weekly currency risk reports prepared using Standard Approach are reported to the top management and BRSA.

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

Average, highest and lowest values of consolidated market risks for the years ended 31 December 2013 and 2012, calculated as per the statutory consolidated financial statements prepared for BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" are as follows:

	2013(**)			**2012(*)**		
	Average	**Highest**	**Lowest**	**Average**	**Highest**	**Lowest**
Interest rate risk	67,836	84,836	70,014	43,241	46,399	40,082
Share risk	82,921	66,840	79,167	85,676	75,626	95,725
Currency risk	176,745	244,266	130,770	262,126	262,762	261,490
Commodity risk	27,783	53,139	24,797	10,966	16,022	5,909
Settlement risk	879	678	361	147	294	--
Option risk	4,593	492	8,777	10,705	8,778	12,632
Counterparty credit risk	56,583	87,866	44,351	58,066	82,174	33,957
Total value at risk	**5,216,750**	**6,726,463**	**4,477,963**	**5,886,588**	**6,150,688**	**5,622,438**

(*)Related figures as at 31 December 2012 are calculated before the calculation base has changed to Basel II starting from 1 July 2012.

(**)Related figures as at 31 December 2013 are calculated in accordance with the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 28337 dated 28 June 2012 which is complaint to Basel II.

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

4. Financial risk management (continued)

4.4 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:

2013	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	--	--	--	--	--	2,194,664	2,194,664
Balances with central bank	--	--	--	--	--	21,152,651	21,152,651
Loans and advances to banks	3,917,156	606,210	306,996	--	--	742,501	5,572,863
Loans and advances to customers(*)	30,558,327	24,757,879	32,706,232	45,758,023	13,105,769	12,610	146,898,840
Trade receivables	802,815	1,177,188	34,189	22,731	--	88,788	2,125,711
Insurance receivables	73,674	25,115	90,302	--	--	1,321,021	1,510,112
Available for sale investment securities	8,377,293	4,879,491	7,136,558	6,622,053	6,944,853	337,546	34,297,794
Held to maturity investment securities	165,876	933,599	6,628,972	--	--	--	7,728,447
Other assets	702,237	69,199	9,821	2,537	--	2,633,466	3,417,260
Total assets	**44,597,378**	**32,448,681**	**46,913,070**	**52,405,344**	**20,050,622**	**28,483,247**	**224,898,342**
Deposits	65,287,255	19,615,819	8,471,060	542,971	18,295	26,066,579	120,001,979
Obligations under repurchase agreements	21,469,426	434,578	691,895	--	--	--	22,595,899
Funds borrowed	8,274,151	11,450,239	5,691,875	1,040,433	3,051,327	9,481	29,517,506
Debt securities issued	1,029,131	1,359,317	2,615,105	3,975,067	2,142,291	--	11,120,911
Payables to stock exchange money market	2,398,975	5,001	--	--	--	--	2,403,976
Trade payables	625,016	652,340	3,265	41,363	1,649	1,150,917	2,474,550
Taxes and dues payable	--	--	--	--	--	330,425	330,425
Corporate tax liability	--	--	--	--	--	197,640	197,640
Insurance contract liabilities	--	--	--	--	--	5,299,483	5,299,483
Subordinated liabilities	--	--	133,402	--	2,957,500	--	3,090,902
Other liabilities	479,439	983,931	2,435,382	136,495	--	4,328,061	8,363,308
Total liabilities	**99,563,393**	**34,501,225**	**20,041,984**	**5,736,329**	**8,171,062**	**37,382,586**	**205,396,579**
Net	**(54,966,015)**	**(2,052,544)**	**26,871,086**	**46,669,015**	**11,879,560**	**(8,899,339)**	**19,501,763**

(*)Non-performing loans and allowance for impairment are not included.

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

4. Financial risk management (continued)

4.4 Market risk (continued)

Exposure to interest rate risk – non-trading portfolios (continued)

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	--	--	--	--	--	1,682,399	1,682,399
Balances with central bank	--	--	--	--	--	14,331,667	14,331,667
Loans and advances to banks	3,265,186	685,734	80,507	--	--	751,590	4,783,017
Loans and advances to customers(*)	33,360,288	13,418,875	27,082,079	34,651,546	7,588,319	18,304	116,119,411
Trade receivables	35,449	994,521	--	35,571	--	590,231	1,655,772
Insurance receivables	62,520	30,046	98,562	--	--	1,082,091	1,273,219
Available for sale investment securities	9,329,339	3,159,679	8,071,869	5,813,314	5,528,868	274,438	32,177,507
Held to maturity investment securities	676,402	3,290,560	5,085,882	1,997,329	--	--	11,050,173
Other assets	373,507	222,280	6,196	203,735	--	2,043,370	2,849,088
Total assets	**47,102,691**	**21,801,695**	**40,425,095**	**42,701,495**	**13,117,187**	**20,774,090**	**185,922,253**
Deposits	55,447,342	20,583,583	6,548,244	644,511	27,038	21,303,709	104,554,427
Obligations under repurchase agreements	13,802,090	301,859	721,521	--	--	--	14,825,470
Funds borrowed	8,872,913	5,100,572	3,672,971	311,426	3,097,701	78,580	21,134,163
Debt securities issued	977,611	1,789,232	1,819,070	1,882,243	--	--	6,468,156
Payables to stock exchange money market	1,918,188	282,216	--	--	--	--	2,200,404
Trade payables	91,790	531,554	8,427	3,569	2,799	679,955	1,318,094
Taxes and dues payable	--	--	--	--	--	287,934	287,934
Corporate tax liability	--	--	--	--	--	415,181	415,181
Insurance contract liabilities	--	--	--	--	--	5,030,820	5,030,820
Subordinated liabilities	--	--	108,576	--	1,785,000	--	1,893,576
Other liabilities	358,905	883,362	2,243,638	20,505	--	4,860,667	8,367,077
Total liabilities	**81,468,839**	**29,472,378**	**15,122,447**	**2,862,254**	**4,912,538**	**32,656,846**	**166,495,302**
Net	**(34,366,148)**	**(7,670,683)**	**25,302,648**	**39,839,241**	**8,204,649**	**(11,882,756)**	**19,426,951**

(*)Non-performing loans and allowance for impairment are not included.

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

4. Financial risk management (continued)

4.4 Market risk (continued)

Interest rate risk

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

2013	**USD** %	**Euro** %	**TL** %
Loans and advances to banks			
Loans and advances to customers	2.40	2.61	8.67
Loans	4.40	4.63	11.64
Finance lease receivables	*6.13*	*6.96*	*13.70*
Factoring receivables	*5.79*	*5.59*	*11.70*
Investment securities			
Trading	*6.15*	*3.15*	*10.92*
Available for sale	*4.51*	*4.73*	*8.32*
Held to maturity	*0.05*	*1.29*	*11.78*
Deposits from banks	0.94	1.71	6.65
Deposits from customers	2.08	2.02	6.38
Obligations under repurchase agreements	1.18	1.53	7.38
Debt securities issued	5.25	--	8.46
Funds borrowed	1.77	1.27	8.82

2012	**USD** %	**Euro** %	**TL** %
Loans and advances to banks	1.26	0.75	8.36
Loans and advances to customers			
Loans	*4.83*	*5.33*	*12.91*
Finance lease receivables	*6.81*	*7.46*	*16.33*
Factoring receivables	*7.17*	*5.16*	*8.71*
Investment securities			
Trading	*5.24*	*2.31*	*8.04*
Available for sale	*4.79*	*4.86*	*8.34*
Held to maturity	*0.05*	*0.75*	*12.51*
Deposits from banks	1.99	1.80	6.16
Deposits from customers	2.26	2.22	6.40
Obligations under repurchase agreements	1.41	1.96	5.72
Debt securities issued	5.33	--	8.10
Funds borrowed	1.96	1.48	7.95

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

4. Financial risk management (continued)

4.4 Market risk (continued)

Interest rate sensitivity

Interest rate sensitivity of profit or loss is the effect of the assumed changes in interest rates on the fair values of financial assets at fair value through profit or loss held as at 31 December 2013 and effect on net interest income of floating rate non-trading financial assets and financial liabilities held at 31 December 2013.

Interest rate sensitivity of the other comprehensive income is calculated by considering the effects of the assumed changes in interest rates on the fair values of fixed rate available-for-sale financial assets as at 31 December 2013.

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

This analysis is performed on the same basis for 31 December 2012.

	2013		**2012**	
	100 bp increase	**100 bp decrease**	**100 bp increase**	**100 bp decrease**
Profit or loss	(160,124)	177,438	(47,698)	83,958
Equity	(622,653)	673,953	(613,617)	672,686

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

4. Financial risk management (continued)

4.4 Market risk (continued)

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.

2013(*)	US Dollar	Euro	Other currencies	Total
Cash and cash equivalents	545,854	240,535	64,584	850,973
Balances with central bank	7,365,359	6,752,067	3,108,242	17,225,668
Loans and advances to banks	2,801,923	1,677,541	430,713	4,910,177
Financial assets at fair value through profit or loss	349,329	118,591	--	467,920
Loans and advances to customers	39,387,157	21,139,673	1,493,583	62,020,413
Trade receivables	193,734	149,256	26,653	369,643
Insurance receivables	21,228	20,896	88,761	130,885
Available for sale investment securities	6,431,522	776,453	33,243	7,241,218
Held to maturity investment securities	2,115	7,561	6,021	15,697
Other assets	873,564	685,814	83,583	1,642,961
Total foreign currency denominated monetary assets	**57,971,785**	**31,568,387**	**5,335,383**	**94,875,555**
Deposits	23,353,073	25,917,114	5,770,351	55,040,538
Obligations under repurchase agreements	3,932,612	227,748	16,117	4,176,477
Funds borrowed	14,964,743	10,793,993	1,754	25,760,490
Debt securities issued	6,007,543	--	--	6,007,543
Payables to stock exchange money market	--	--	--	--
Trade payables	55,537	48,756	20,980	125,273
Insurance contract liabilities	580,211	221,810	105,539	907,560
Subordinated liabilities	3,090,902	--	--	3,090,902
Other liabilities	2,009,115	1,336,135	41,698	3,386,948
Total foreign currency denominated monetary liabilities	**53,993,736**	**38,545,556**	**5,956,439**	**98,495,731**
Net statement of financial position	**3,978,049**	**(6,977,169)**	**(621,056)**	**(3,620,176)**
Net off balance sheet position	**(5,174,532)**	**3,479,654**	**350,310**	**(1,344,568)**
Net long/(short) position	**(1,196,483)**	**(3,497,515)**	**(270,746)**	**(4,964,744)**

(*)Assets and liabilities of foreign subsidiaries denominated in their own functional currencies are not included in the foreign currency table above.

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

4. Financial risk management (continued)

4.4 Market risk (continued)

Management of currency risk (continued)

2012(*)	**US Dollar**	**Euro**	**Other currencies**	**Total**
Cash and cash equivalents	366,369	205,430	44,724	616,523
Balances with central bank	5,334,537	4,665,843	2,775,647	12,776,027
Loans and advances to banks	664,806	498,670	686,874	1,850,350
Financial assets at fair value through profit or loss	375,630	170,355	--	545,985
Loans and advances to customers	30,412,764	16,202,350	843,892	47,459,006
Trade receivables	162,451	179,240	17,419	359,110
Insurance receivables	40,546	17,651	63,296	121,493
Available for sale investment securities	6,642,129	624,849	89,963	7,356,941
Held to maturity investment securities	1,524	1,947	4,970	8,441
Other assets	781,678	157,529	16,041	955,248
Total foreign currency denominated monetary assets	**44,782,434**	**22,723,864**	**4,542,826**	**72,049,124**
Deposits	19,920,808	16,436,764	4,694,083	41,051,655
Obligations under repurchase agreements	3,104,075	233,642	8	3,337,725
Funds borrowed	9,955,930	8,034,034	512	17,990,476
Debt securities issued	1,797,989	--	--	1,797,989
Payables to stock exchange money market	19,458	--	--	19,458
Trade payables	24,216	43,888	2,380	70,484
Insurance contract liabilities	402,831	358,982	77,038	838,851
Subordinated liabilities	1,893,576	--	--	1,893,576
Other liabilities	1,757,410	1,695,452	22,846	3,475,708
Total foreign currency denominated monetary liabilities	**38,876,293**	**26,802,762**	**4,796,867**	**70,475,922**
Net statement of financial position	**5,906,141**	**(4,078,898)**	**(254,041)**	**1,573,202**
Net off balance sheet position	**(2,942,156)**	**1,930,232**	**611,363**	**(400,561)**
Net long/(short) position	**2,963,985**	**(2,148,666)**	**357,322**	**1,172,641**

(*)Assets and liabilities of foreign subsidiaries denominated in their own functional currencies are not included in the foreign currency table above.

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

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

4. Financial risk management (continued)

4.4 Market risk (continued)

Exposure to currency risk

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

	2013		2012	
	Profit or loss	**Equity(*)**	**Profit or loss**	**Equity(*)**
US Dollar	59,367	54,019	344,339	377,416
Euro	336,588	343,598	(204,799)	(192,086)
Other currencies	(1,983)	(2,108)	46,558	46,055
Total, net	**393,972**	**395,509**	**186,098**	**231,385**

(*) Includes profit/loss effect.

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

	2013		2012	
	Profit or loss	**Equity(*)**	**Profit or loss**	**Equity(*)**
US Dollar	(59,367)	(54,019)	(344,339)	(377,416)
Euro	(336,588)	(343,598)	204,799	192,086
Other currencies	1,983	2,108	(46,558)	(46,055)
Total, net	**(393,972)**	**(395,509)**	**(186,098)**	**(231,385)**

(*) Includes profit/loss effect.

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

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 Group is exposed to the equity share risk arising from its investments in companies, which are traded on the stock exchange. Equity shares are generally acquired for trading investment purposes. Equity shares portfolio is immaterial and therefore the Group's sensitivity to the share price risks is limited.

Unless the equity share investments classified as assets available for sale are disposed of or impaired, the net profit/loss will not be affected.

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

4. Financial risk management (continued)

4.4 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, judgment 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 amortised 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, funds borrowed, 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.

	Carrying amount		**Fair value**	
	2013	**2012**	**2013**	**2012**
Cash and cash equivalents	2,194,664	1,682,399	2,194,664	1,682,399
Balances with central bank	21,152,651	14,331,667	21,152,651	14,331,667
Loans and advances to banks	5,572,863	4,783,017	5,572,863	4,783,017
Trading investment securities	1,624,680	1,554,867	1,624,680	1,554,867
Derivative financial instruments	1,288,834	642,523	1,288,834	642,523
Loans and advances to customers	146,863,072	115,923,798	146,828,228	118,224,813
Available for sale investment securities	34,297,792	32,177,507	34,297,792	32,177,507
Held to maturity investment securities	7,728,447	11,050,173	7,833,550	11,834,362
Total financial assets	**220,723,003**	**182,145,951**	**220,793,262**	**185,231,155**
Deposits	120,001,979	104,554,427	119,997,531	104,555,681
Obligations under repurchase agreements	22,595,899	14,825,470	22,595,889	14,825,470
Derivative financial instruments	1,201,500	760,440	1,201,500	760,440
Debt securities issued	11,120,911	6,468,156	11,031,127	6,561,012
Funds borrowed	29,517,506	21,134,163	30,084,539	21,167,015
Payables to stock exchange money market	2,403,976	2,200,404	2,403,976	2,200,404
Subordinated liabilities	3,090,902	1,893,576	2,935,212	2,014,944
Total financial liabilities	**189,932,673**	**151,836,636**	**190,249,774**	**152,084,966**

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

4. Financial risk management (continued)

4.4 Market risk (continued)

Classification of fair value measurement

IFRS 7 – *Financial Instruments: Disclosures* requires the measurements of fair value of financial instruments to be classified in a hierarchy that reflects the significance of the valuation inputs used. This classification prioritizes observable data, using market data obtained from independent sources, in preference to unobservable data that relies, for example on the use of predictions and assumptions about market prices by the Group. This sort of categorization generally results in the classifications below:

Level 1: Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: Fair value measurements using inputs for the assets or liability that are not based on observable market data (i.e. unobservable inputs).

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

2013	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss				
Debt securities	1,361,402	5,901	57,228	1,424,531
Equity shares	29,222	--	--	29,222
Other	170,893	34	--	170,927
Derivative financial assets	--	1,288,834	--	1,288,834
Financial asset available for sale				
Debt securities	24,694,964	5,191,314	4,088,062	33,974,340
Equity shares(*)	22,512	--	--	22,512
Other	6,964	218,083	--	225,047
Derivative financial liabilities	--	1,201,500	--	1,201,500

(*)As at 31 December 2013, securities that are not publicly traded and the determination of fair values could not be obtained reliably amounting to TL 75,893 have been measured at cost.

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

4. Financial risk management (continued)

4.4 Market risk (continued)

Classification of fair value measurement (continued)

2012	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss				
Debt securities	1,207,000	9,561	6,558	1,223,119
Equity shares	177,999	--	--	177,999
Other	153,729	20	--	153,749
Derivative financial assets	--	642,523	--	642,523
Financial asset available for sale				
Debt securities	25,652,118	5,043,620	1,221,353	31,917,091
Equity shares (*)	97,390	--	--	97,390
Other	--	122,210	--	122,210
Derivative financial liabilities	--	760,440	--	760,440

(*) As at 31 December 2012, securities that are not publicly traded and the determination of fair values could not be obtained reliably amounting to TL 40,816 have been measured at cost.

There has not been any transition between Level 1 and Level 2 during 2013 and 2012.

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 year ended 31 December 2013 and 2012 is as follows:

	2013	2012
Balance at the beginning of the year	1,227,911	6,586,537
Purchases	2,995,775	18,576
Redemption or sales	(297,139)	(3,191,156)
Valuation difference	171,532	(135,876)
Transfer	47,211	(2,050,170)
Balance at the end of the year	**4,145,290**	**1,227,911**

Level 3 of the fair value hierarchy 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.

During 2013, certain investment securities were transferred out of Level 3 of the fair value hierarchy amounting to TL 47,211 when significant inputs used in their fair value measurements such as certain credit spreads and long-dated option volatilities, which were previously unobservable, became observable.

During 2012, due to changes in market conditions for certain investment securities, quoted prices in active markets were no longer available for these securities. Hence, these securities amounting to TL (2,050,170) were transferred into Level 3 of the fair value hierarchy.

4. Financial risk management (continued)

4.5 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.

In the assessment of operational risk, "Self-Assessment Methodology" is applied. This method requires identifying the risks through the participation of the personnel who is responsible for undertaking the operation. Both qualitative and quantitative methods are used in the measurement and evaluation of operational risk. Information derived from the "Impact-Likelihood Analysis", "Control Culture Survey" and "Loss Database" is used in the measurements.

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

The Group calculated the value of operational risk in accordance with the fourth section regarding the "Computation of Value of Operational Risk" of the circular, "Regulation Regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette dated 1 June 2007, using gross profit of the last three years 2011, 2010 and 2009 ("the Basic Indicator Approach). The amount, calculated as TL 1,090,380 as at 31 December 2013 (31 December 2012: TL 1,021,396) represents the operational risk that the Group may be exposed to and the amount of minimum capital requirement to eliminate this risk. Value of operational risk amounted to TL 13,629,748 (31 December 2012: TL 12,767,447) and is calculated as 12.5 times the operational risk.

4.6 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 analysed 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 liabilities received and free reserves set aside for contingencies.

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

4. Financial risk management (continued)

4.6 Capital management – regulatory capital (continued)

Banking operations are categorised 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 off-balance sheet exposures. Operational risk capital requirements and market risk capital requirements as at 31 December 2013 and 2012 are calculated using the Basic Indicator Approach and included in the capital adequacy calculations.

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

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

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

	2013(*)	**2012(*)**
Tier 1 capital	25,607,957	22,715,413
Tier 2 capital	5,133,727	4,815,882
Deductions from capital	(174,324)	(205,724)
Total regulatory capital	**30,567,360**	**27,325,571**
Risk-weighted assets	192,795,763	149,412,713
Value at market risk	6,726,463	5,622,438
Operational risk	13,629,748	12,767,447
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	14.34	16.28
Total tier 1 capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	12.01	13.54

(*)Related figures are calculated in accordance with the "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 28337 dated 28 June 2012 which is complaint to Basel II.

5. Management of insurance risk

Insurance risk is defined as coverage for exposures that exhibit a possibility of financial loss due to applying inappropriate and insufficient insurance techniques. Main reasons of insurance risk exposure result from the risk selection and inaccurate calculation of insurance coverage, policy terms and fee or inaccurate calculation of coverage portion kept within the company and coverage portion transfers to policyholders and transfer conditions.

Objective of managing risks arising from insurance contracts and policies used to minimize such risks

Potential risks that may be exposed in transactions are managed based on the requirements set out in the Group's "Risk Management Policies" issued by the approval of the Board of Directors. The main objective of risk management policies is to determine the risk measurement, assessment, and control procedures and maintain consistency between the Group's asset quality and limitations allowed by the insurance standards together with the Group's risk tolerance of the accepted risk level assumed in return for a specific consideration. In this respect, instruments that are related to risk transfer, such as; insurance risk selection, risk quality follow-up by providing accurate and complete information, effective monitoring of level of claims by using risk portfolio claim frequency, treaties, facultative reinsurance contracts and coinsurance agreements, and risk management instruments, such as; risk limitations, are used in achieving the related objective.

Risk tolerance is determined by the Group's Board of Directors by considering the Group's long-term strategies, equity resources, potential returns and economical expectations, and it is presented by risk limitations. Authorization limitations during policy issuing include authorizations for risk acceptances granted based on geographical regions in relation to unacceptable special risks or pre-approved acceptable special risks, insurance coverage to agencies, district offices, technical offices, assistant general managers and top management in the policy issuance period and authorizations for claim payment granted to district offices, claim management administration, automobile claims administration and Claim Committee established by the managing director and assistant managing director in the claim payment period.

Whatsoever, risk acceptance is based on technical income expectations under the precautionary principle. In determining insurance coverage, policy terms and fee, these expectations are based accordingly.

It is essential that all the authorized personnel in charge of executing policy issuance transactions, which is the initial phase of insurance process, should ensure to gather or provide all the accurate and complete information to issue policies in order to obtain evidence on the acceptable risks that the Group can tolerate from the related insurance transactions. On the other hand, decision to be made on risk acceptance will be possible by transferring the coverage to the reinsurers and/or coinsurers and considering the terms of the insurance policy.

In order to avoid destructive losses over company's financial structure, company transfers the exceeding portion of risks assumed over the Group's risk tolerance and equity resources through treaties, facultative reinsurance contracts and coinsurance agreements to reinsurance and coinsurance companies. Insurance coverage and policy terms of reinsurance are determined by assessing the nature of each insurance branch.

5. Management of insurance risk (continued)

Objective of managing risks arising from reinsurance contracts and policies used to minimize such risks (continued)

Reinsurance risk is defined as a possibility of financial loss due to inappropriate and insufficient application of reinsurance techniques in the activities of taking insurance contract responsibility partially or completely.

Potential risks that may be exposed in transactions are described, classified and managed based on the requirements set out in the Group's "Regulative Framework on the Risk Management Activities, Risk Management Policies and Implementation Procedures and Principles of the Risk Management" issued by the approval of the Board of Directors.

The main objective of the "Regulative Framework on the Risk Management Activities, Risk Management Policies and Implementation Procedures and Principles of the Risk Management" is to determine the risk measurement, assessment, and control procedures and maintain consistency between the Group's asset quality and limitations allowed by the insurance standards together with the Group's risk tolerance of the accepted risk level assumed in return for a specific consideration. In this respect, instruments that are related to risk transfer, such as; insurance risk selection, risk quality follow-up by providing accurate and complete information, effective monitoring of level of claims by using risk portfolio claim frequency, treaties, facultative reinsurance contracts and coinsurance agreements, and risk management instruments, such as; risk limitations, are used in achieving the related objective.

Reinsurance risk is measured by quantitative methods and kept under pre-specified limits based on the "Limit over Acceptable Reinsurance Risk and Maximum Custody Share Limit" updated and approved annually by the Board of Directors.

Reinsurance risk is monitored regularly according to criteria described in the "Limit over Acceptable Reinsurance Risk and Maximum Custody Share Limit" policy and results are analysed by the Risk Committee and reported to the Board of Directors. Action plan is determined by the Board of Directors in the case of having exposure higher than acceptable level of risk and probability.

Sensitivity to insurance and reinsurance risk

Insurance risks do not generally have significant unrecoverable losses in the course of ordinary transactions, except for risks associated with earthquake and other catastrophic risks. Therefore, there is a high sensitivity to earthquake and catastrophic risks.

The case of potential claims' arising from earthquake and other catastrophic risks exceeding the maximum limit of the excess of loss agreements, such risks are treated as the primary insurance risks and are managed based on the precautionary principle. Maximum limit of excess of loss agreements is determined based on the worst case scenario on the possibility of an earthquake that Istanbul might be exposed to in terms of its severity and any potential losses incurred in accordance with the generally accepted international earthquake models.

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

5. Management of insurance risk (continued)

Insurance risk concentrations

The Group's gross and net insurance risk concentrations (after reinsurance) in terms of insurance branches are summarized as below:

	2013		
Branches(*)	**Gross total claims liability**	**Reinsurance share of total claims liability**	**Net total claims liability**
Life insurance	1,875,474	(3,998)	1,871,476
Motor vehicles liability (MTPL)	392,957	(15,116)	377,841
General liability	145,694	(14,833)	130,861
Health	102,625	(18,949)	83,676
Fire and natural disasters	75,030	(31,394)	43,636
Motor vehicles	57,404	1,790	59,194
General losses	55,320	(33,483)	21,837
Water vehicles	22,200	(8,976)	13,224
Transportation	22,054	(11,185)	10,869
Accident	16,393	(431)	15,962
Air crafts liability	7,323	(5,560)	1,763
Financial losses	1,482	(313)	1,169
Credit	1,353	(18)	1,335
Air crafts	1,228	34	1,262
Legal protection	449	(57)	392
Total	**2,776,986**	**(142,489)**	**2,634,497**

(*)Total claims liability includes outstanding claims reserve, life mathematical provisions and incurred but not reported claims.

	2012		
Branches(*)	**Gross total claims liability**	**Reinsurance share of total claims liability**	**Net total claims liability**
Life insurance	2,211,143	(5,468)	2,205,675
Motor vehicles liability (MTPL)	252,624	(11,443)	241,181
Motor vehicles	67,249	2,121	69,370
General liability	91,606	(5,653)	85,953
Fire and natural disasters	56,902	(18,067)	38,835
General losses	57,226	(33,724)	23,502
Health	57,615	(27)	57,588
Transportation	21,474	(11,713)	9,761
Accident	10,712	(304)	10,408
Water vehicles	16,430	(7,350)	9,080
Air crafts	1,428	(431)	997
Credit	1,244	(93)	1,151
Air crafts liability	(2,727)	(18)	(2,745)
Financial losses	3,186	(2,740)	446
Legal protection	159	--	159
Total	**2,846,271**	**(94,910)**	**2,751,361**

(*)Total claims liability includes outstanding claims reserve, life mathematical provisions and incurred but not reported claims.

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

5. Management of insurance risk (continued)

Re-insurance risk concentrations

The Group's gross and net re-insurance risk concentrations (after reinsurance) in terms of insurance branches are summarized as below:

	2013		
Branches(*)	**Gross total claims liability**	**Reinsurance share of total claims liability**	**Net total claims liability**
Fire and natural disasters	255,862	933	256,795
General losses	167,324	(3,099)	164,225
Motor vehicles liability (MTPL)	103,794	(62)	103,732
General responsibility	78,088	(1,792)	76,296
Water vehicles	31,161	(3,572)	27,589
Transportation	21,702	(2,771)	18,931
Accident	12,027	(169)	11,858
Motor vehicles	10,931	(20)	10,911
Life insurance	7,428	(2,060)	5,368
Breach of trust	1,514	(70)	1,444
Health	1,287	--	1,287
Financial losses	467	--	467
Air crafts	257	--	257
Water vehicles liability	143	--	143
Legal protection	38	(1)	37
Credit	8	--	8
Total	**692,031**	**(12,683)**	**679,348**

(*) Total claims liability includes outstanding claims reserve, life mathematical provisions and incurred but not reported claims.

	2012		
Branches(*)	**Gross total claims liability**	**Reinsurance share of total claims liability**	**Net total claims liability**
Fire and natural disasters	233,782	(20,526)	213,256
General losses	167,545	(3,297)	164,248
Motor vehicles liability (MTPL)	103,900	82	103,982
General responsibility	59,878	(577)	59,301
Motor vehicles	32,773	(4,672)	28,101
Water vehicles	20,712	36	20,748
Health	10,896	(543)	10,353
Transportation	8,221	(381)	7,840
Accident	6,617	(1,046)	5,571
Life insurance	4,114	--	4,114
Air crafts	1,361	(30)	1,331
Breach of trust	610	(4)	606
Water vehicles	508	--	508
Financial losses	152	--	152
Legal protection	129	--	129
Credit	15	--	15
Total	**651,213**	**(30,958)**	**620,255**

(*) Total claims liability includes outstanding claims reserve, life mathematical provisions and incurred but not reported claims.

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

6. Business combinations

Business combinations in the year 2013

The Group acquired 100% of shares of Fritz Holding GmbH. and all of its subsidiaries, for a consideration of Euro 3,000,000 on 31 May 2013. The goodwill calculation is based on the temporary amounts and will be finalized within 12 months following the acquisition date. If necessary, revision on the calculation will be reflected in the financial statements as of the acquisition date. The Group aimed to gain a large share of market and support its target of production and sale of glass encapsulation in Germany.

Identifiable assets acquired and liabilities assumed		
	Net Book Value	**Fair Value**
Current Assets	**85,144**	**81,772**
Cash and cash equivalents	17,036	17,036
Trade receivables	28,227	28,339
Inventories	28,849	24,278
Prepaid expenses	737	737
Other current assets	10,295	4,455
Assets held for sale	--	6,927
Non-current assets	**66,010**	**69,880**
Tangible assets	65,201	48,593
Other non-current assets	809	21,287
Total Assets	**151,154**	**151,652**
Liabilities		
Current liabilities	**89,704**	**135,508**
Financial liabilities	340	340
Trade payables	23,531	22,769
Other payables	62,340	62,340
Short-term provision	--	35,237
Other current liabilities	3,493	14,822
Non-current liabilities	**29,441**	**12,403**
Financial liabilities	6,745	6,927
Other payables	22,017	--
Long-term provisions	679	1,454
Deferred tax liabilities	--	4,022
Total liabilities	**119,145**	**147,911**
Total net identifiable assets	**32,008**	**3,741**
The cash paid	--	7,262
Cash and cash equivalents acquired	--	(17,036)
Net cash outflow	**--**	**(9,774)**
Goodwill (Note 16)	--	3,522
Currency translation differences	--	750
Goodwill as at 31 December 2013	**--**	**4,272**

In the consolidated statements of income, the share of Fritz Holding GmbH in the revenue after the acquisition date is TRY 256,540. In the same period, its contribution to the profit attributable to equity holders of the parent is TRY 14,565. Had Fritz Holding GmbH been included in the consolidation starting from 1 January 2013, additional net revenue of TRY 164,545 and a decrease in the consolidated income statement by TRY 144 would have been recognized.

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

6. Business combinations (continued)

Business combinations in the year 2012

The Group acquired 61.66% shares of Numnum, for a purchase consideration of TL 27,000 on 5 December 2012. TL 26,000 of the total amount was paid in cash whereas the remaining amount of TL 1,000 was accounted for in current payables related to acquisitions.

According to "IFRS 3: Business Combinations", the Group obtained a valuation report for the purpose of measuring the fair value of Numnum's identifiable assets and liabilities and determining fair value of the equity interest as of the date that the controlling obtained. The valuation report has been prepared through considering audited financial statements as at 31 December 2012 since the effect of the operations between the time when the controlling interest of Numnum is obtained and 31 December 2012 is at an insignificant level.

Identifiable assets acquired and liabilities assumed	Carrying amount	Fair value
Trade and other receivables	141	141
Inventories	537	537
Other assets	803	803
Deferred tax asset	297	297
Property, plant and equipment	1,865	1,865
Intangible assets(*)	72	14,662
Total assets	**3,715**	**18,305**
Funds borrowed	8,885	8,885
Trade payables	3,581	3,581
Other liabilities	2,713	2,713
Deferred tax liabilities	--	2,918
Total liabilities	**15,179**	**18,097**
Total net identifiable assets	**(11,464)**	**208**
Net cash paid for acquisition of subsidiary (net cash outflow)	--	26,000
Current payables related with the acquisition	--	1,000
Total purchase consideration	**--**	**27,000**
Total purchase consideration	--	27,000
Total net identifiable assets	--	(208)
Non-controlling interests	--	80
Goodwill as at 31 December 2012 (Note 16)	**--**	**26,872**

(*)Fair value amount includes the fair value of trademarks and leasing agreements amounting to TL 14,590.

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

6. Business combinations (continued)

Business combinations in the year 2012 (continued)

The Group acquired 58.50% shares of Toksöz Spor, for a purchase consideration of TL 23,900, which was fully paid in cash, on 13 November 2012.

According to "IFRS 3: Business Combinations", the Group obtained a valuation report for the purpose of measuring the fair value of Toksöz Spor's identifiable assets and liabilities and determining fair value of the equity interest as of the date that the controlling obtained. The valuation report has been prepared through considering audited financial statements as at 31 October 2012 since the effect of the operations between the time when the controlling interest of Toksöz Spor is obtained and 31 October 2012 is at an insignificant level.

	13 November 2012 (restated)	
Identifiable assets acquired and liabilities assumed	**Carrying amount**	**Fair value**
Cash and cash equivalents	954	954
Trade and other receivables	46,169	46,169
Inventories	31,404	31,404
Other assets	7,252	7,252
Deferred tax asset	813	813
Property, plant and equipment	3,729	3,729
Intangible assets(*)	92	12,362
Total assets	**90,413**	**102,683**
Funds borrowed	49,127	49,127
Trade payables	27,414	27,414
Other liabilities	16,047	16,047
Deferred tax liabilities	--	2,454
Total liabilities	**92,588**	**95,042**
Total net identifiable assets	**(2,175)**	**7,641**
Total cash paid	--	23,900
Total purchase consideration	**--**	**23,900**
Total purchase consideration	--	23,900
Total net identifiable assets	--	(7,641)
Non-controlling interests	--	3,171
Goodwill as at 31 December 2013 (Note 16)	**--**	**19,430**
Net cash paid for acquisition of subsidiary	--	23,900
Cash and cash equivalents acquired	--	(954)
Net cash outflow	**--**	**22,946**

(*)Fair value amount includes the fair value of trademarks and leasing agreements amounting to TL 12,270.

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

6. Business combinations (continued)

Business combinations in the year 2012 (continued)

Erol Frik has become shareholder with holding 20% of the shares through transferring USD 4.5 million to Ortopro through capital increase by limiting existing shareholders’ stock warrant as of 5 March 2012. Simultaneous with capital increase, İş Girişim has purchased bonus share at the rate of 6.5% from Tolga Yalçınkaya, shareholder of Ortopro, and İş Girişim’s shares in Ortopro remained at the rate of 32.5%. İş Girişim’s claim of appointment for Board of Directors increased from 1 to 2 and İş Girişim has started to control more than half of the shares owned by Group B through capital increase. Therefore; Ortopro has been included in financial statements as one of the subsidiaries as at 31 December 2013 and equity accounted investee of the Group for previous period and non-controlling interests are disclosed for consolidated equity of participations.

According to “IFRS 3: Business Combinations”, the Group obtained a valuation report for the purpose of measuring the fair value of Ortopro’s identifiable assets and liabilities and determining fair value of the equity interest as of the date that the controlling obtained. The valuation report has been prepared through considering audited financial statements as at 31 December 2012 since the effect of the operations between the time when the controlling interest of Ortopro is obtained and 31 December 2012 is at an insignificant level.

Hence, as of the time when the controlling interest is obtained by the Group, fair value of the previously obtained equity interest is calculated. The difference between fair value and carrying value of the shares of the participation amounting to TL 6,516 is recognised as revenue arising from business combinations in “Other Operating Income” in the consolidated statement of income and the difference between fair value of the net assets of Ortopro and fair value of the equity interest amounting to TL 9,206 is recognized as goodwill. Distribution network and licenses arising from acquisition are recognised at fair value determined by independent valuation experts.

As of controlling interest obtained, fair value of the identifiable assets and liabilities are presented as follows:

Identifiable assets acquired and liabilities assumed	**Carrying amount**	**Fair value**
Cash and cash equivalents	1,676	1,676
Trade receivables	27,052	27,052
Inventories	12,420	12,420
Other assets	2,430	2,431
Deferred tax asset	1,291	716
Property, plant and equipment	5,979	5,979
Intangible assets	232	3,105
Total assets	**51,080**	**53,379**
Funds borrowed	21,193	21,193
Trade payables	26,922	26,922
Other liabilities	1,725	1,725
Total liabilities	**49,840**	**49,840**
Total net identifiable assets	**1,240**	**3,539**

Fair value of equity interest	--	10,356
Non-controlling interests	--	2,388
Total net identifiable assets	--	(3,538)
Goodwill as at 31 December 2013 (Note 16)	**--**	**9,206**

Fair value of equity interest	--	10,356
Carrying value of Ortopro as at 31 December 2012	--	(3,840)
Income from business combination (Note 37)	**--**	**6,516**

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

6. Business combinations (continued)

Business combinations in the year 2012 (continued)

The Group acquired 90% of shares of Glass Corp. S.A., for a purchase consideration of Euro 3,098,613 on 11 July 2012. Euro 2,575,493 of the total amount was paid in cash whereas the remaining amount of Euro 523,120 was accounted for under current payables related to acquisitions. Goodwill arising from the acquisition through which the Group aimed at gaining a large share of market in Romania and support its target of growing in emerging markets, is represented below;

Identifiable assets acquired and liabilities assumed		
	Net Book Value	**Fair Value**
Current Assets	**1,307**	**1,217**
Cash and cash equivalents	1	1
Trade receivables	741	651
Other receivables	1	1
Inventories	564	564
Non-current assets	**7,133**	**6,410**
Tangible assets	7,088	6,365
Other non-current assets	45	45
Total Assets	**8,440**	**7,627**
Liabilities		
Current liabilities	**3,593**	**4,609**
Financial liabilities	180	180
Trade payables	1,067	2,083
Other payables	2	2
Other current liabilities	2,344	2,344
Non-current liabilities	**9,414**	**9,414**
Financial liabilities	9,064	9,064
Other liabilities	350	350
Total liabilities	**13,007**	**14,023**
Total net identifiable assets	**(4,567)**	**(6,396)**
The Group's share in net assets (%90)	**--**	**5,756**
The cash paid	--	6,063
Current payables related with the acquisition	--	1,536
Total purchase consideration	--	**7,599**
The fair value of the consideration to be transferred at the date of transaction	--	**6,845**
	--	
Goodwill (Note 16)	**--**	12,602
Currency translation differences	**--**	4,274
Goodwill as at 31 December 2013	**--**	**16,876**

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

7. Cash and cash equivalents

At 31 December 2013 and 2012, cash and cash equivalents comprised the following:

	2013	2012
Cash on hand	2,190,365	1,681,353
- Turkish lira	*1,339,392*	*1,064,830*
- Foreign currency	*850,973*	*616,523*
Other liquid assets	4,299	1,046
Total cash and cash equivalents	**2,194,664**	**1,682,399**

There is no blockage or restriction on the use of cash and cash equivalents as at 31 December 2013 and 2012.

	2013	2012
Cash and cash equivalents	2,194,664	1,682,399
Loans and advances to banks (with original maturity of less than 3 months)	4,659,587	4,114,893
Unrestricted balances with the central banks	6,079,492	2,995,776
Money market placements	140,360	76,705
Cash and cash equivalents in the statement of cash flows	**13,074,103**	**8,869,773**

8. Balances with central bank

	2013	2012
Unrestricted balances with central bank		
Demand deposits – Turkish Lira	3,926,983	1,555,640
Demand deposits – Foreign currency	2,152,509	1,440,136
	6,079,492	**2,995,776**
Reserve deposits		
Demand deposits – Foreign currency	15,073,159	11,335,891
	15,073,159	**11,335,891**
Total balances with central bank	**21,152,651**	**14,331,667**

According to the Communiqué on Reserve Requirements, No. 2005/1 based on Article 40-II of The Law on the Central Bank of the Republic of Turkey No.1211 as amended by Banking Law No. 5411, dated 19 October 2005, banks are obliged to maintain required reserves at the Central Bank for their liabilities. Deposits subject to reserve requirement include the deposits of real and legal persons, interbank deposits (excluding domestic interbank deposits) and the deposits collected in Turkey by the banks on behalf of their branches abroad.

Reserve deposits represent the minimum deposits maintained within the Central Bank of the Republic of Turkey calculated on the basis of the Turkish Lira and foreign currency liabilities taken, at the rates determined by the Central Bank of the Republic of Turkey. The reserve deposit rates vary according to their maturity compositions; the reserve deposit rates are realised between 5%-11.5% for Turkish lira deposits and other Turkish Lira liabilities, between 9%-13% for foreign currency deposits and between 6%-13% for foreign currency other liabilities. Reserves are calculated and set aside every two weeks on Fridays for 14-day periods in Turkish Lira liabilities and in US Dollar and/or Euro for foreign currency liabilities. In accordance with the related communiqué, no interest is paid for reserve requirements.

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

9. Loans and advances to banks

	2013	**2012**
Domestic banks		
Demand deposits – Turkish Lira	33,724	54,638
Demand deposits – Foreign currency	10,070	8,870
Time deposits – Turkish Lira	386,603	2,706,312
Time deposits – Foreign currency	3,454,037	540,491
	3,884,434	**3,310,311**
Foreign banks		
Demand deposits – Turkish Lira	101,984	94,995
Demand deposits – Foreign currency	951,671	769,382
Time deposits – Foreign currency	494,399	531,607
	1,548,054	**1,395,984**
Money market placements (*)	140,375	76,722
Total loans and advances to banks	**5,572,863**	**4,783,017**

(*) Money market placements include interest income accrual amounting to TL 15 (31 December 2012: TL 17).

For cash flow purposes, the bank balances having original maturity of less than 3 months and not restricted were classified as cash and cash equivalents. These balances amounting to TL 4,659,587 as at 31 December 2013 (31 December 2012: TL 4,114,893).

As at 31 December 2013, the balances with banks include TL 246,576 restricted account regarding the covenants of the borrowings and insurance activities (31 December 2012: TL 200,714).

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

10. Securities portfolio

At 31 December 2013 and 2012, securities portfolio comprised the following:

	2013	2012
Government bonds (Repurchase agreements)	24,799,810	15,900,134
Treasury bills and government bonds	16,140,092	26,106,735
Debt securities issued by corporations	1,654,279	1,729,847
Credit linked notes	533,137	453,667
Investment funds	395,245	274,388
Equity shares	140,904	325,335
Other securities	729	1,571
Allowance for impairment on securities	(13,277)	(9,130)
Total of securities portfolio	**43,650,919**	**44,782,547**

Financial assets at fair value through profit or loss comprised the following items:

	2013	2012
Government bonds (Repurchase agreements)	923,203	821,365
Treasury bills and government bonds	267,537	204,707
Debt securities issued by corporations	233,791	197,047
Investment funds	170,198	152,178
Equity shares	29,222	177,999
Other securities	729	1,571
Total of financial assets at fair value through profit or loss	**1,624,680**	**1,554,867**

At 31 December 2013 and 2012, available for sale securities portfolio comprised the following:

	2013	2012
Government bonds (Repurchase agreements)	18,383,911	10,878,083
Treasury bills and government bonds	13,636,804	19,052,541
Debt securities issued by corporations	1,420,488	1,532,800
Credit linked notes	533,137	453,667
Investment funds	225,047	122,210
Equity shares	111,682	147,336
Allowance for impairment on securities	(13,277)	(9,130)
Total of available for sale securities	**34,297,792**	**32,177,507**

TL 1,787,656 of the available for sale investment comprise marketable securities of Anadolu Hayat, a subsidiary of the Group; reserved in the name of life insurance policy holders (31 December 2012: TL 2,117,707).

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

10. Securities portfolio (continued)

The equity shares in available for sale portfolio are unquoted and detailed as follows:

	2013	2012
İMKB Takas ve Saklama Bankası A.Ş.	59,025	25,789
Kültür Yayınları İş-Türk Ltd. Şti.	5,591	5,591
Kredi Garanti Fonu	4,211	4,211
Bankalararası Kart Merkezi A.Ş.	1,986	2,488
Kredi Kayıt Bürosu A.Ş.	1,685	1,685
T.C. Merkez Bankası	1,452	1,452
Stock Exchange (Borsa İstanbul A.Ş.)	1,429	--
Other	36,303	106,120
Allowance for impairment	(13,277)	(9,130)
Total equity shares in available for sale investments	**98,405**	**138,206**

The details of allowance for impairment on available for sale portfolio is as follows:

	2013	2012
Bakırsan Bakır Sanayi Mamülleri Tic. A.Ş.	2,107	2,107
Kültür Yayınları İş-Türk Ltd. Şti.	1,559	1,559
Paşabahçe Mağazaları B.V	1,452	1,452
Aksa Enerji Üretim A.Ş.	--	99
Other	8,159	3,913
Allowance for impairment on securities	**13,277**	**9,130**

Held to maturity investments comprised the following items:

	2013	2012
Government bonds (Repurchase agreements)	5,492,696	4,200,686
Treasury bills and government bonds	2,235,751	6,849,487
Total of held to maturities portfolio	**7,728,447**	**11,050,173**

There is not any reclassification between securities portfolio in the current period.

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

	2013	2012
Turkish Treasury	2,160,353	2,348,500
Guarantee given for repurchase agreements	2,091,076	810,447
Guarantee given for Export Finance Intermediary Loan ("EFIL")	1,375,873	1,168,366
Stock Exchange (Borsa İstanbul A.Ş.)	902,466	734,882
Central Bank of Turkey	290,659	1,341,524
Foreign currency market	20,535	53,837
Clearing House	46,318	49,063
Central banks of other countries	18,048	26,167
Interbank money market	21,562	22,241
Derivative exchange market	12,338	12,418
Capital Markets Board of Turkey	54	51
Securities deposited as collaterals	**6,939,282**	**6,567,496**

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

11. Loans and advances to customers

	2013	2012
Short term loans		
Other non-guaranteed loans	18,492,019	17,137,271
Other guaranteed loans	18,009,869	16,423,745
Guaranteed export loans	4,222,591	3,764,945
Loans provided to financial sector	3,442,362	2,738,587
Non-guaranteed export loans	932,574	1,413,303
Factoring receivables	924,550	991,996
Loans provided to foreign institutions	832,304	919,789
Finance lease receivables	663,133	423,736
Discount and purchase bills	249,463	237,785
Domestic precious metals loans	66,156	45,068
Indemnified non-cash loans	9,254	15,035
	47,844,275	**44,111,260**
Medium and long term loans		
Guaranteed other investment and operating loans	71,939,744	52,398,330
Non-guaranteed loans	22,469,951	16,773,382
Finance lease receivables	1,483,274	899,806
Loans provided to foreign institutions	1,236,183	766,845
Loans provided to financial sector	78,851	63,598
	97,208,003	**70,901,961**
Interest accruals	1,846,562	1,106,190
Total performing loans and advances to customers	**146,898,840**	**116,119,411**
Non-performing loans and advances to customers		
Non-performing loans	2,502,942	2,169,656
Non-performing leasing receivables	109,585	101,687
Non-performing factoring receivables	16,945	10,902
	2,629,472	**2,282,245**
Allowance for impairment		
Specific allowance for impairment on loans (-)	(1,334,724)	(1,142,277)
Portfolio allowance for impairment on loans (-)	(1,263,299)	(1,266,713)
Allowance for impairment on leasing receivables (-)	(52,653)	(57,966)
Allowance for impairment on factoring receivables (-)	(14,564)	(10,902)
	(2,665,240)	**(2,477,858)**
Loans and advances to customers, net	**146,863,072**	**115,923,798**

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

11. Loans and advances to customers (continued)

The movement in the allowance for impairment on loans for the year ended 31 December is as follows:

	2013	2012
Balance as at 1 January	**2,408,990**	**2,831,554**
Provision set during the year	978,436	673,379
Collection and recoveries	(636,328)	(677,116)
Effects of exchange rates in movements	55,644	1,130
Loans written-off during the year(*)	(208,719)	(419,957)
Balance as at 31 December	**2,598,023**	**2,408,990**

(*) In the current period, loans written-off consist of the portfolio of non-performing loans written off through sales to LBT Varlık Yönetim A.Ş. amounting to TL 87,849 with a sales amount equivalent to TL 10,430. Besides loans written-off consist of the portfolio of non-performing loans written off through sales to Girişim Varlık Yönetim A.Ş. amounting to TL 163,865 including previously written off receivables amounting to TL 106, with a sales amount equivalent to TL 32,041. (31 December 2012: TL 285,619 to LBT Varlık Yönetim A.Ş. and TL 136,641 Girişim Varlık Yönetimi A.Ş.).

As at 31 December 2013 and 2012, details of finance lease receivables are as follows:

2013	Short term	Long term	Total
Invoiced finance lease receivables	37,335	--	37,335
Uninvoiced finance lease receivables	756,488	1,443,417	2,199,905
Unearned interest income (-)	(130,690)	(163,309)	(293,999)
Ongoing leasing contracts (*)	--	157,526	157,526
Advances given for lease transactions	--	45,640	45,640
Total performing finance lease receivables	**663,133**	**1,483,274**	**2,146,407**
Non-performing leasing receivables	107,512	2,073	109,585
Allowance for impairment on leasing receivables (-)	(51,657)	(996)	(52,653)
Finance lease receivables, net	**718,988**	**1,484,351**	**2,203,339**

2012	Short term	Long term	Total
Invoiced finance lease receivables	39,859	3,602	43,461
Uninvoiced finance lease receivables	482,526	1,004,121	1,486,647
Unearned interest income (-)	(98,649)	(126,650)	(225,299)
Ongoing leasing contracts(*)	--	10,305	10,305
Advances given for lease transactions	--	8,428	8,428
Total performing finance lease receivables	**423,736**	**899,806**	**1,323,542**
Non-performing leasing receivables	91,470	10,217	101,687
Allowance for impairment on leasing receivables (-)	(52,142)	(5,824)	(57,966)
Finance lease receivables, net	**463,064**	**904,199**	**1,367,263**

(*)The Group purchases machinery and equipment from domestic and foreign suppliers on behalf of the lessees on the basis of the leasing contract terms. As at 31 December 2013 and 2012, the balance includes the total amount paid for these machinery and equipment but not charged to the lessees yet.

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

11. Loans and advances to customers (continued)

The movement in the allowance for impairment on finance lease receivables loans for the year ended 31 December is as follows:

	2013	**2012**
Balance as at 1 January	**57,966**	**57,527**
Provision set during the year	14,946	13,456
Collection and recoveries	(181)	(901)
Transfer to other provisions	--	(1,902)
Loans written off during the period(*)	(20,078)	(10,214)
Balance as at 31 December	**52,653**	**57,966**

(*)Consists of the portfolio formed within non-performing finance lease receivables and written off through sales to Türkasset Varlık Yönetim A.Ş. (31 December 2012: Consists of the portfolio formed within non-performing finance lease receivables and written off through sales to LBT Varlık Yönetim A.Ş.).

As at 31 December 2013 and 2012, details of factoring receivables are as follows:

	2013	**2012**
Domestic factoring receivables, net	778,680	966,019
Export and import factoring receivables	149,425	27,750
Interest income accrual on factoring receivables	3,685	2,997
Unearned interest income	(7,240)	(4,770)
Total performing factoring receivables	**924,550**	**991,996**
Non-performing factoring receivables	16,945	10,902
Allowance for impairment on factoring receivables (-)	(14,564)	(10,902)
Factoring receivables, net	**926,931**	**991,996**

The Group have factoring receivables TL 1,649 which is provision provided less than 90 days as at the reporting date. There is no carrying amount of the Group's restructured factoring receivables (31 December 2012: TL 87).

The movement in the allowance for impairment on factoring receivables loans for the year ended 31 December is as follows:

	2013	**2012**
Balance as at 1 January	**10,902**	**2,603**
Provision set during the year	4,006	8,602
Collection and recoveries	(344)	(303)
Balance as at 31 December	**14,564**	**10,902**

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

12. Trade receivables

As at 31 December 2013 and 2012, trade receivable comprised the following:

	2013	2012
Trade receivables in manufacturing companies	1,134,506	974,143
Customer receivables of brokerage firms	626,506	458,962
Other trade receivables	364,699	222,667
Doubtful receivables	42,753	40,450
Total trade receivables	**2,168,464**	**1,696,222**
Allowance for doubtful receivables (-)	(42,753)	(40,450)
Trade receivables, net	**2,125,711**	**1,655,772**

The movement in the allowance for impairment in respect of trade receivables for the year ended 31 December is as follows:

	2013	2012
Balance as at 1 January	**40,450**	**39,888**
Impairment loss recognized	12,981	4,837
Acquisition of subsidiary	--	2,891
Effects of exchange rates in movements	92	(300)
Collection during the year	(4,521)	(5,029)
Provision reversed	(6,249)	(1,837)
Balance as at 31 December	**42,753**	**40,450**

Terms for the Group's manufacturing companies domestic sales based on the main product lines are as follows:

Average sales term for basic glasses is 90 days (31 December 2012: 90 days) and 1.5% overdue interest rate is applied for the payments made after the due date (31 December 2012: 1.5%).

Average sales term for auto glass and processed glass items is 45 days (31 December 2012: 45 days). A portion of foreign sales are made in cash and the remaining portion receivable has average 60 days (31 December 2012: 60 days) maturity.

Average sales term for automatic glass items is 75 days (31 December 2012: 75 days) and a monthly overdue interest rate of 2% is applied for the payments made after the due date (31 December 2012: 3%).

Glass packaging products have been sold on cash terms since 1 November 2009. According to the customer demand a monthly interest of 1.25% for the payment terms up to 121 days and a monthly interest rate of 3% are applied for the payments exceeding 121 days.

Inter-group sales terms of soda products are cash based. The applied average term of domestic external sales related to soda products is 43 days (31 December 2012: 38 days). Monthly 2% overdue interest is applied for the payments made after due dates (31 December 2012: 2%).

Average sales term for domestic sales of chromium products in foreign currency is 25 days (31 December 2012: 26 days). A monthly overdue interest rate of 1% is applied for the payments made after the due date (31 December 2012: 1%). Average sales term for export sales is 60 days (31 December 2012: average 60 days).

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

12. Trade receivables (continued)

Receivables related to heavy engineering industry sales are collected in accordance with progress payment plan. The Group has recognised provision for doubtful receivables. Allowance for doubtful receivables is determined by referring to past default experience. In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted to the reporting date. The Group has no significant concentration on credit risk, with exposure spread over a large number of counterparties and customers. Accordingly, the management believes that no further credit provision is required in excess of the allowance for doubtful receivables.

13. Inventories

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

	2013	**2012**
Finished goods	736,602	679,921
Raw materials	362,109	306,883
Trading goods	118,392	95,887
Work in progress	46,532	58,054
Trading properties	35,530	79,513
Others	61,080	52,022
Total inventories	**1,360,245**	**1,272,280**
Allowance for impairment (-)	(18,352)	(19,476)
Inventories, net	**1,341,893**	**1,252,804**

The movement in the allowance for impairment in respect of inventories for the year ended 31 December is as follows:

	2013	**2012**
Balance as at 1 January	**19,476**	**15,282**
Impairment loss recognised	1,533	5,504
Business combinations	--	1,482
Disposals from sale of subsidiary	--	(81)
Effects of exchange rates in movements	693	(82)
Provision released	(3,350)	(2,629)
Balance as at 31 December	**18,352**	**19,476**

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

14. Insurance receivables and insurance contract liabilities

Insurance receivables

At 31 December 2013 and 2012, insurance receivables comprised the following:

	2013	2012
Receivables from agencies, brokers and intermediaries	710,722	595,811
Receivables from reinsurance and insurance companies	607,171	501,128
Cash deposited to insurance and reinsurance companies	85,467	74,247
Receivables from policyholders	65,961	64,216
Salvage and subrogation receivables	19,705	20,280
Premium receivables from insurance activities	12,789	8,960
Capital advances given to pension investment funds	8,297	8,577
Doubtful receivables from insurance operations	123,342	106,631
Total insurance receivables	**1,633,454**	**1,379,850**
Allowance for non-performing insurance receivables (-)	(123,342)	(106,631)
Insurance receivables, net	**1,510,112**	**1,273,219**

The details of guarantees for the Group's insurance receivables are presented below:

	2013	2012
Mortgage notes	72,663	74,637
Letters of guarantees	155,324	64,674
Other guarantees	19,675	15,744
	247,662	**155,055**

The movement in the allowance for impairment in respect of insurance receivables for the year ended 31 December is as follows:

	2013	2012
Balance at 1 January	**106,631**	**97,059**
Impairment loss recognised	16,080	10,754
Collections during the year	(909)	(721)
Effects of exchange rates in movements	1,540	(461)
Balance as at 31 December	**123,342**	**106,631**

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

14. Insurance receivables and insurance contract liabilities (continued)

Insurance contract liabilities

Insurance contract liabilities at 31 December 2013 and 2012 are detailed in the tables below:

2013	**Gross**	**Ceded**	**Net**
Reserve for unearned premiums	1,801,597	(333,346)	1,468,251
Provision for outstanding claims	1,587,427	(151,174)	1,436,253
Reserve for unexpired risks	28,385	(9,371)	19,014
Life mathematical provisions	1,881,592	(3,998)	1,877,594
Provision for bonus and discounts	482	(353)	129
Total insurance contract liabilities	**5,299,483**	**(498,242)**	**4,801,241**

2012	**Gross**	**Ceded**	**Net**
Reserve for unearned premiums	1,521,751	(247,051)	1,274,700
Provision for outstanding claims	1,282,681	(121,004)	1,161,677
Reserve for unexpired risks	11,287	(5,614)	5,673
Life mathematical provisions	2,214,573	(5,468)	2,209,105
Provision for bonus and discounts	528	(272)	256
Total insurance contract liabilities	**5,030,820**	**(379,409)**	**4,651,411**

The movement of the reserve for unearned premiums for the year ended 31 December is as follows:

2013	**Gross**	**Ceded**	**Net**
Reserve for unearned premiums at the beginning of the year	1,521,751	(247,051)	1,274,700
Premiums written during the year	4,015,505	(821,755)	3,193,750
Premiums earned during the year (Note 36)	(3,735,659)	735,460	(3,000,199)
Reserve for unearned premiums at the end of the year	**1,801,597**	**(333,346)**	**1,468,251**

2012	**Gross**	**Ceded**	**Net**
Reserve for unearned premiums at the beginning of the year	1,442,853	(229,181)	1,213,672
Premiums written during the year	3,577,263	(613,347)	2,963,916
Premiums earned during the year (Note 36)	(3,498,365)	595,477	(2,902,888)
Reserve for unearned premiums at the end of the year	**1,521,751**	**(247,051)**	**1,274,700**

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

14. Insurance receivables and insurance contract liabilities (continued)

Insurance contract liabilities (continued)

The movement of the provision for outstanding claims for the year ended 31 December is as follows:

2013	Gross	Ceded	Net
Provision for outstanding claims at the beginning of the year	1,282,681	(121,004)	1,161,677
Claims reported during the period and changes in the estimations of provisions for outstanding claims provided at the beginning of the year	2,587,149	(169,168)	2,417,981
Claims paid during the year (Note 39)	(2,282,403)	138,998	(2,143,405)
Provision for outstanding claims at the end of the year	**1,587,427**	**(151,174)**	**1,436,253**

2012	Gross	Ceded	Net
Provision for outstanding claims at the beginning of the year	1,103,136	(98,888)	1,004,248
Claims reported during the period and changes in the estimations of provisions for outstanding claims provided at the beginning of the year	2,608,592	(183,021)	2,425,571
Claims paid during the year (Note 39)	(2,429,047)	160,905	(2,268,142)
Provision for outstanding claims at the end of the year	**1,282,681**	**(121,004)**	**1,161,677**

15. Equity accounted investees

Carrying amount of equity accounted investees is summarized below:

	2013	2012
Avea	385,974	426,743
Solvay Şişecam	190,997	142,367
HNG Float Glass Limited(*)	120,384	--
Arap Türk	96,644	86,722
Saint Gobain Glass Egypt S.A.	80,056	49,354
İş Koray(**)	16,802	--
Rudnik Krecnjaka Vijenac D.O.O.(**)	16,289	--
Omco İstanbul Kalıp Sanayii ve Tic. A.Ş.(**)	15,859	--
OAO Form Mat	12,750	11,353
Oxyvit Kimya Sanayii ve Tic. A.Ş.(**)	7,049	--
OOO Balkum(**)	5,915	--
Aras Kargo(***)	--	23,566
Other(**)	1,270	--
Equity accounted investees	**949,989**	**740,105**

(*) 50% of shares of HNG Float Glass Limited, which is located in India, was acquired by Trakya Cam Sanayii A.Ş., one of the Group's subsidiaries, in June 2013 with a consideration of USD 61 million.
(**) As a result of IFRS 11 "Joint Arrangements", the Group has changed its accounting policy for its interest in joint arrangements, whereas the effect has been evaluated as insignificant and these investees are consolidated through proportionate consolidation in comparative periods.
(***) The Group has sold all shares in Aras of which carrying amount was TL 27,866 to Post 206 Beteiligungs GmbH in return of TL 100,000 on 30 July 2013. The Group makes gain on these transactions amounting to TL 72,134.

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

15. Equity accounted investees (continued)

The Group's share of income in its equity accounted investees for the year ended 31 December 2013 is TL 8,982 (31 December 2012: TL 310,052 income, including the dilution gain of Avea amounting to TL 263,630). With the board decision held on February 2012, share capital of Avea has been decreased by TL 3,295,000 and increased by TL 3,295,000 in cash on the same day. The Group did not participate in capital increase using its preemptive right. Therefore, the percentage of Group shareholding decreased to 9.57% from 17.83% while shareholding of Türk Telekom increased to 89.99% from 81.37%.

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

2013	Ownership (%)	Total assets	Total liabilities	Profit / (loss) in the year
Arap Türk	20.58	3,466,934	2,997,236	48,534
Avea(*)	9.57	6,915,886	2,882,823	(428,406)
HNG Float Glass Limited(**)	50.00	412,456	171,688	(6,612)
İş Koray(***)	50.00	41,368	10,921	(3,156)
OAO Form Mat	48.46	28,163	1,851	165
Omco İstanbul Kalıp Sanayii ve Tic. A.Ş.(***)	50.00	43,148	11,430	13,150
OOO Balkum(***)	50.00	13,736	1,906	325
Oxyvit Kimya Sanayii Ve Tic. A.Ş. (***)	50.00	23,757	9,660	4,284
Rudnik Krecnjaka Vijenac D.O.O. (***)	50.00	42,863	10,286	580
Saint Gobain Glass Egypt SAE(*****)	30.82	479,444	219,651	(12,066)
Solvay Şişecam(****)	25.00	1,007,135	243,145	120,176
Other(***)		9,983	7,452	996
		12,484,873	**6,568,049**	**(262,030)**

(*)The Group has significant influence on Avea by having voting rights of 20%.

(**)50% of shares of HNG Float Glass Limited, which is located in India, was acquired by Trakya Cam Sanayii A.Ş., one of the Group's subsidiaries, in June 2013 with a consideration of USD 61 million.

(***)As a result of IFRS 11 "Joint Arrangements", the Group has changed its accounting policy for its interest in joint arrangements, whereas the effect has been evaluated as insignificant and these investees are consolidated through proportionate consolidation in comparative periods.

(****)Solvay Şişecam Holding AG is a private company that was founded in Vienna, Austria in order to manage Solvay Sodi A.D., located in Devnya, Bulgaria and founded based on Bulgarian Republic laws.

(*****)On 4 October 2012, the Group gained significant influence over the financial asset through the acquisition of additional shares from that date on it has reclassified this asset as an associate and accounted for it using the equity method. Additional, 5% of the capital of the company was acquired on 12 February 2013 for a purchase price of Euro 5,138,056. With this acquisition, the ownership rate in the associate increased to 25% from 20%. Additional, 5.82% of the capital of the company was acquired on 21 June 2013 for a purchase price of Euro 5,358,910 with this acquitision, the ownership rate in the associate increased to 30.82% from 25%.

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

15. Equity accounted investees (continued)

The summary of the financial statements of Joint Ventures is as follows

HNG Float Glass Limited

	31.Dec.13
Current assets	54,123
Non-current assets	358,333
Total Assets	**412,456**
Current liabilities	154,464
Non-current liabilities	17,224
Total Liabilities	**171,688**
Net asset (including goodwill)	**240,768**
Group share (%)	
Direct and indirect ownership rate (%)	50.00
Group share in net assets	**120,384**
Revenue	73,388
Profit / (loss) from continuing operations	**(6,612)**
Other comprehensive income/ (loss)	16,699
Total comprehensive income/ (loss)	**10,087**
The Group's share in profit/(loss) from continuing operations	**(3,306)**

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

15. Equity accounted investees (continued)

The summary of the financial statements of Joint Ventures is as follows (continued)

İş Koray

	31 December 2013	31 December 2012
Current assets	3,106	5,305
Non-current assets	38,262	33,854
Total Assets	**41,368**	**39,159**
Current liabilities	6,705	5,555
Non-current liabilities	4,215	--
Total Liabilities	**10,920**	**5,555**
Net asset	**30,448**	**33,604**
Group share (%)		
Direct and indirect ownership ratio (%)	50.00	50.00
Group share in net assets		
Revenue	98	94
Profit / (loss) from continuing operations	**(3,156)**	**(1,543)**
Other comprehensive income/ (loss)	--	--
Total comprehensive income/ (loss)	**(3,156)**	**(1,543)**
The Group's share in profit/(loss) from continuing operations	**(1,578)**	**(772)**

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

15. Equity accounted investees (continued)

The summary of the financial statements of Joint Ventures is as follows (continued)

Omco İstanbul Kalıp Sanayii ve Tic. A.Ş.

	31 December 2013	31 December 2012
Current assets	33,591	32,686
Non-current assets	9,557	8,965
Total Assets	**43,148**	**41,651**
Current liabilities	8,556	7,679
Non-current liabilities	2,874	2,353
Total Liabilities	**11,430**	**10,032**
Net asset	**31,718**	**31,619**
Group share (%)		
Direct and indirect ownership ratio (%)	50.00	50.00
Group share in net assets	**15,859**	**15,809**
Revenue	61,413	64,617
Profit / (loss) from continuing operations	**13,150**	**14,074**
Other comprehensive income/ (loss)	--	--
Total comprehensive income/ (loss)	**13,150**	**14,074**
The Group's share in profit/(loss) from continuing operations	**6,575**	**7,037**
Dividend distribution from retained earnings	**13,050**	**14,903**
The Group's share in dividend distributed	**6,525**	**7,452**

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

15. Equity accounted investees (continued)

The summary of the financial statements of Joint Ventures is as follows (continued)

OOO Balkum

	31 December 2013	31 December 2012
Current assets	3,202	4,433
Non-current assets	10,534	8,178
Total Assets	**13,736**	**12,611**
Current liabilities	1,906	1,528
Non-current liabilities	--	797
Total Liabilities	**1,906**	**2,325**
Net asset	**11,830**	**10,286**
Group share (%)		
Direct and indirect ownership rate (%)	50.00	50.00
Group share in net assets	**5,915**	**5,143**
Revenue	16,525	14,929
Profit / (loss) from continuing operations	**325**	**1,851**
Other comprehensive income/ (loss)	1,218	17
Total comprehensive income/ (loss)	**1,543**	**1,868**
The Group's share in profit/(loss) from continuing operations	**162**	**926**

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

15. Equity accounted investees (continued)

The summary of the financial statements of Joint Ventures is as follows (continued)

Rudnik Krecnjaka Vijenac D.O.O.

	31 December 2013	31 December 2012
Current assets	3,135	3,442
Non-current assets	39,728	32,293
Total Assets	**42,863**	**35,735**
Current liabilities	9,670	8,547
Non-current liabilities	616	1,637
Total Liabilities	**10,286**	**10,184**
Net asset (including goodwill)	**32,577**	**25,551**
Group share (%)		
Direct and indirect ownership ratio (%)	50.00	50.00
Group share in net assets	**16,289**	**12,775**
Revenue	12,287	10,774
Profit / (loss) from continuing operations	**580**	**(377)**
Other comprehensive income/ (loss)	6,447	(882)
Total comprehensive income/ (loss)	**7,027**	**(1,259)**
The Group's share in profit/(loss) from continuing operations	**290**	**(189)**
Capital increases in the period	**--**	**3,607**

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

15. Equity accounted investees (continued)

The summary of the financial statements of Joint Ventures is as follows (continued)

Oxyvit Kimya Sanayii Ve Tic. A.Ş.

	31 December 2013	31 December 2012
Current assets	12,862	12,180
Non-current assets	10,895	9,037
Total Assets	**23,757**	**21,217**
Current liabilities	5,770	4,991
Non-current liabilities	3,890	3,164
Total Liabilities	**9,660**	**8,155**
Net asset	**14,097**	**13,062**
Group share (%)		
Direct and indirect ownership rate (%)	50.00	50.00
Group share in net assets	**7,049**	**6,531**
Revenue	27,775	29,254
Profit / (loss) from continuing operations	**4,284**	**4,263**
Other comprehensive income/ (loss)	--	--
Total comprehensive income/ (loss)	**4,284**	**4,263**
The Group's share in profit/(loss) from continuing operations	**2,142**	**2,131**
Dividend distribution from retained earnings	**3,248**	--
The Group's share in dividend distributed	**1,624**	--

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

15. Equity accounted investees (continued)

Summary of goodwill for equity accounted investees is as follows:

	2013	2012
Saint Gobain Glass Egypt S.A.	33,814	19,685
OAO Form Mat	11,610	--
HNG Float Glass Limited	2,006	--
Rudnik Krecnjaka Vijenac D.O.O.	1,088	--
Aras Kargo	--	19,202
Türkmed	--	1,617
Türkmed goodwill impairment	--	(1,617)
Total goodwill for equity accounted investees	**48,518**	**38,887**

16. Goodwill

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

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

	2013	2012
Balance as at 1 January	**129,721**	**50,761**
Additions (Note 6)(*)	3,522	78,214
Effect of movements in exchange rates	5,789	746
Impairment	(19,758)	--
Balance as at 31 December	**119,274**	**129,721**

(*) Includes goodwill arising from the acquisition of Fritz Holding GmbH amounting to TL 3,522 (31 December 2012: the amount includes goodwill arising from the acquisition of Ortopro amounting to TL 9,206, of Toksöz Spor amounting to TL 22,354, of Num Num amounting to TL 26,872, of Glass Corp S.A. amounting to 12,602 and additional payments for CJSC İşbank amounting to TL 6,384 and Cromital S.p.A. amounting to TL 796.)

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

17. Property, plant and equipment

	Land	Land improvements	Buildings	Machinery and equipment	Vehicles	Furniture, fixture and other fixed assets	Construction in progress	Total
Cost								
Balance at 1 January 2013	257,031	274,385	5,125,815	6,919,957	302,665	2,295,815	1,067,696	16,243,364
Reclassifications	(4,011)	4,699	3,710	-125,740	-42	5,590	14	(115,780)
Currency translation differences	9,797	10,024	126,835	270,292	5,311	36,310	112,458	571,027
Acquisition through business combinations	11,845	--	53,875	90,513	490	27,192	1,399	185,314
Additions(*)	38,417	924	139,302	187,924	6,724	364,749	1,399,031	2,137,071
Disposals(**)	(25,989)	(620)	(217,042)	(369,557)	(7,724)	(108,920)	(55,799)	(785,651)
(Impairment) / reversal	45,628	--	31,941	0	(25,435)	3,947	--	56,081
Transfers	15,411	15,140	76,980	510,877	1,710	102,972	(774,673)	(51,583)
Balance at 31 December 2013	**348,129**	**304,552**	**5,341,416**	**7,484,266**	**283,699**	**2,727,655**	**1,750,126**	**18,239,843**
Depreciation								
Balance at 1 January 2013	--	(148,635)	(2,431,721)	(5,249,934)	(236,488)	(1,594,844)	(3,454)	(9,665,076)
Reclassifications	(1,145)	(42)	(5,359)	127,946	44	(5,664)	--	115,780
Currency translation differences	--	(4,337)	(35,414)	(144,304)	(3,700)	(25,219)	--	(212,974)
Acquisition through business combinations	--	--	(38,963)	(73,418)	(414)	(23,926)	--	(136,721)
Depreciation for the year	--	(21,720)	(100,945)	(406,394)	(26,354)	(273,380)	--	(828,793)
Disposals(**)	--	130	79,063	263,937	6,926	65,356	--	415,412
(Impairment) / reversal	--	--	856	--	--	--	--	856
Transfers	--	--	--	--	--	--	--	--
Balance at 31 December 2013	**(1,145)**	**(174,604)**	**(2,532,483)**	**(5,482,167)**	**(259,986)**	**(1,857,677)**	**(3,454)**	**(10,311,516)**
Carrying amounts at 31 December 2013	**346,984**	**129,948**	**2,808,933**	**2,002,099**	**23,713**	**869,978**	**1,746,672**	**7,928,327**

(*) Total additions include premises and equipment obtained as collection from non-performing loans amounting to TL 170,471.
(**) Total disposals include 'Impact of amendment in IFRS-11'.

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

17. Property, plant and equipment (continued)

	Land	Land improvements	Buildings	Machinery and equipment	Vehicles	Furniture, fixture and other fixed assets	Construction in progress	Total
Cost								
Balance at 1 January 2012	253,726	323,513	5,213,917	7,032,586	337,572	2,134,916	218,499	15,514,729
Reclassifications	--	(4,423)	7,344	(2,921)	--	--	--	--
Currency translation differences	(1,309)	(982)	(7,906)	(21,822)	(1,179)	(2,247)	527	(34,918)
Acquisition through business combinations	277	--	1,060	7,258	1,564	23,528	203	33,890
Additions (*)	66,290	388	128,898	69,392	7,763	242,922	881,377	1,397,030
Disposals (**)	(64,539)	(44,111)	(151,047)	(164,536)	(31,993)	(103,304)	(24,868)	(584,398)
(Impairment) / reversal	2,586	--	4,524	--	(11,062)	--	--	(3,952)
Transfers	--	--	(70,975)	--	--	--	(8,042)	(79,017)
Balance at 31 December 2012	**257,031**	**274,385**	**5,125,815**	**6,919,957**	**302,665**	**2,295,815**	**1,067,696**	**16,243,364**
Depreciation								
Balance at 1 January 2012	--	(155,177)	(2,388,972)	(5,004,955)	(229,880)	(1,419,254)	(1,735)	(9,199,973)
Reclassifications	--	(100)	100	8,216	--	(8,216)	--	--
Currency translation differences	--	162	1,489	9,387	716	1,538	--	13,292
Acquisition through business combinations	--	--	(83)	(2,203)	(730)	(12,937)	--	(15,953)
Depreciation for the year	--	(9,975)	(98,242)	(380,762)	(27,915)	(228,975)	(1,719)	(747,588)
Disposals (**)	--	16,455	53,212	120,383	21,321	73,000	--	284,371
(Impairment) / reversal	--	--	775	--	--	--	--	775
Transfers	--	--	--	--	--	--	--	--
Balance at 31 December 2012	**--**	**(148,635)**	**(2,431,721)**	**(5,249,934)**	**(236,488)**	**(1,594,844)**	**(3,454)**	**(9,665,076)**
Carrying amounts at 31 December 2012	**257,031**	**125,750**	**2,694,094**	**1,670,023**	**66,177**	**700,971**	**1,064,242**	**6,578,288**

(*) Total additions include premises and equipment obtained as collection from non-performing loans amounting to TL 160,056.

(**) Due to the sale of Gemport, property, plant and equipment with a net book value of TL 103,040 of Gemport as at 31 December 2011 is included in disposals.

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

18. Intangible assets

	Rights	Mine fields	Development expenses	Other intangible assets	Total
Cost					
Balance at 1 January 2013	445,542	13,135	17,241	111,378	587,296
Translation difference	8,347	--	--	5,655	14,002
Acquisitions through business combinations	38,222	--	--	1,362	39,584
Additions	204,642	--	12,397	37,475	254,514
Disposals(*)	(20,613)	--	--	(3,428)	(24,041)
Balance at 31 December 2013	**676,140**	**13,135**	**29,638**	**152,442**	**871,355**
Amortisation					
Balance at 1 January 2013	(305,597)	(5,052)	(5,648)	(40,030)	(356,327)
Charge for the year	(111,872)	(819)	(4,894)	(30,389)	(147,974)
Acquisitions through business combinations	(17,215)	--	--	(1,083)	(18,298)
Translation difference	(3,878)	--	--	(4,847)	(8,725)
Disposals(*)	13,632	--	--	1,841	15,473
Balance at 31 December 2013	**(424,930)**	**(5,871)**	**(10,542)**	**(74,508)**	**(515,851)**
Carrying amounts at 31 December 2013	**251,210**	**7,264**	**19,096**	**77,934**	**355,504**

(*)Total disposals include 'Impact of amendment in IFRS-11'.

	Rights	Mine fields	Development expenses	Other intangible assets	Total
Cost					
Balance at 1 January 2012	318,067	13,135	13,045	72,814	417,061
Translation difference	(50)	--	--	(696)	(746)
Acquisitions through business combinations	45	--	--	30,210	30,255
Additions	129,474	--	4,196	10,703	144,373
Disposals(*)	(1,994)	--	--	(1,653)	(3,647)
Transfers	--	--	--	--	--
Balance at 31 December 2012	**445,542**	**13,135**	**17,241**	**111,378**	**587,296**
Amortisation					
Balance at 1 January 2012	(229,088)	(4,233)	(2,407)	(33,997)	(269,725)
Translation difference	550	--	--	210	760
Acquisitions through business combinations	(22)	--	--	(231)	(253)
Charge for the year	(78,776)	(819)	(3,241)	(6,362)	(89,198)
Disposals(*)	1,739	--	--	350	2,089
Balance at 31 December 2012	**(305,597)**	**(5,052)**	**(5,648)**	**(40,030)**	**(356,327)**
Carrying amounts at 31 December 2012	**139,945**	**8,083**	**11,593**	**71,348**	**230,969**

(*)Due to the sale of Gemport, intangible assets with a net book value of TL 33 of Gemport as at 31 December 2011 is included in disposals.

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

19. Investment properties

	2013	2012
Cost		
Balance as at 1 January	1,256,658	1,157,414
Acquisitions	202,853	193,889
Disposals	(194,359)	(18,408)
Reversal of impairment loss	5,106	3,276
Transfers to inventories(*)	(35,530)	(79,513)
Balance as at 31 December	**1,234,728**	**1,256,658**
Accumulated depreciation		
Balance as at 1 January	(200,890)	(184,112)
Depreciation for the year	(20,667)	(25,885)
Disposals	51,090	9,107
Balance as at 31 December	**(170,467)**	**(200,890)**
Carrying amount as at 31 December	**1,064,261**	**1,055,768**

(*)İş GYO has started the Ege Perla Izmir project registered in Izmir, Konak District and pre-sales of project has started on October 2012. In addition, İş GYO has started the Çınarlı Bahçe Tuzla project registered in Istanbul, Tuzla District in the last quarter of 2011 and pre-sales of project has started on October 2013. Completed portions of the projects have been transferred to inventories as of 31 December 2012.

The property rental income earned by the Group from its investment property, all of which is leased out under operating leases amounted to TL 75,386 (31 December 2012: TL 72,233). Direct operating expenses arising on the investment property in the current period amounted to TL 25,411 (31 December 2012: TL 38,553).

As of 31 December 2013, the Group's total fair value of investment property amounts to TL 2,113,189 (31 December 2012: TL 1,950,017). Expert reports on these properties have been prepared by the authorized real estate valuation companies. There are no pledges on these properties.

20. Non-current assets held for sale

	2013	2012
Balance at 1 January	**73,295**	**60,256**
Transfers	51,583	79,017
Additions (*)	43,848	1,090
Disposals	(65,160)	(67,068)
Balance as at 31 December	**103,566**	**73,295**

(*)The addition has include the balances of Antgıda Gıda Tarım Turizm Enerji ve Demir Çelik San Tic A.Ş which has classified as held for sale.

The Bank management decided to sell all Bank-owned shares of Antgıda Gıda Tarım Turizm Enerji ve Demir Çelik San. Tic. A.Ş., a subsidiaries of the Bank, to Rafine Billur Tuz A.Ş. or to its capital group as of December 2013 amounting to TL 7,000. Accordingly, part of Antgıda Gıda Tarım Turizm Enerji ve Demir Çelik San. Tic. A.Ş. is presented as a disposal group held for sale. As at 31 December 2013, the disposal group comprised TL 34,917 assets and TL 17,155 liabilities held for sale.

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

20. Non-current assets held for sale (continued)

The Group's assets classified as assets held for sale primarily comprises real estates 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 the regulators. The related real estates subject to sale are announced on the Group's website. Announcements are made by using newspaper ads and similar media.

Impairment losses provided on real estates held for sale were determined based on the appraisals of independent appraisal firms.

21. Other assets

At 31 December 2013 and 2012, other assets comprised the following:

	2013	**2012**
Deposits and guarantees given	1,084,722	620,163
Credit card receivables	764,602	609,966
Prepaid expenses	305,927	314,586
Deferred acquisition costs for insurance contracts	286,589	267,041
VAT deductible and carried forward	185,786	155,318
Advances given	151,165	136,560
Receivables from clearing house	138,840	43,571
Advances given for tangible and intangible assets	79,612	194,053
Precious metal (Gold)	67,562	98,557
Receivables from banking services	59,978	37,415
Receivables from personnel	13,298	15,155
Receivables from ongoing construction contracts	10,078	11,763
Other assets	269,101	344,940
	3,417,260	**2,849,088**

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 year ended 31 December 2013 and 2012, movement of deferred acquisition cost is as follows:

	2013	**2012**
Deferred acquisition cost at the beginning of the year	267,041	253,883
Commissions accrued during the year	651,131	624,463
Commissions expensed during the year (Note 34)	(631,583)	(611,305)
Deferred acquisition cost at the end of the year	**286,589**	**267,041**

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

22. Deposits

At 31 December 2013 and 2012, deposits from banks comprised the following:

	2013	2012
Payable on demand	289,201	235,227
Term deposits	3,903,100	2,976,586
Deposits from banks	**4,192,301**	**3,211,813**

As at 31 December 2013, deposits from banks include TL accounts amounting to TL 1,293,971 (31 December 2012: TL 982,685) and foreign currency accounts amounting to TL 2,898,330 (31 December 2012: TL 2,229,128) in total.

At 31 December 2013 and 2012, deposits from customers comprised the following:

	2013			2012
	Demand	**Time**	**Total**	**Total**
Foreign currency deposits	8,471,752	40,438,464	48,910,216	35,944,460
Saving deposits	7,385,973	37,988,404	45,374,377	41,453,128
Commercial deposits	6,144,145	7,641,941	13,786,086	12,711,959
Public institutions and other deposits	3,799,839	3,939,160	7,738,999	11,233,067
Deposits from customers	**25,801,709**	**90,007,969**	**115,809,678**	**101,342,614**

23. Obligations under repurchase agreements

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-bearing assets, depending on the prevailing interest rates. The securities sold under repurchase agreements and corresponding obligations are as follows:

	2013	2012
Obligations under repurchase agreements	22,595,899	14,825,470
	22,595,899	**14,825,470**

The proceeds from the sale of securities under repurchase agreements are treated as liabilities and recorded as obligations under repurchase agreements. As at 31 December 2013, the maturities of the obligations varied from two days to six years (31 December 2012: one day to seven years). The underlying securities for obligations under repurchase agreements are given in Note 10.

24. Funds borrowed

At 31 December 2013 and 2012, funds borrowed comprised the following:

	2013		2012	
	Short term	**Long term**	**Short term**	**Long term**
Funds borrowed from domestic banks and institutions	1,551,887	633,873	2,421,724	414,167
Funds borrowed from foreign banks and institutions	10,505,276	16,826,470	6,638,716	11,659,556
Funds borrowed	**12,057,163**	**17,460,343**	**9,060,440**	**12,073,723**

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

24. Funds borrowed (continued)

Borrowings from foreign banks and institutions include syndicated loans, securitization loans and other borrowings. Details of syndicated loans and securitized loans as at 31 December 2013 are as follows:

Principal	Maturity
USD 16 Million (1)	November 2014
USD 5 Million (2)	January 2014
USD 4 Million (2)	January 2014
USD18 Million (3)	May 2014
USD 13 Million (3)	May 2014
USD 12 Million (3)	May 2014
USD 32 Million (4)	February 2015
USD 5 Million (4)	February 2014
USD 75 Million (5)	November 2016
Euro 40 Million (5)	November 2016
Euro 60 Million (5)	November 2016
Euro 60 Million (5)	November 2018
Euro 50 Million (6)	August 2024
Euro 75 Million (6)	August 2024
USD 175 Million (6)	August 2017
USD 50 Million (6)	August 2017
USD 50 Million (7)	November 2018
Euro 60 Million (7)	November 2018
Euro 75 Million (7)	November 2018
Euro 50 Million (7)	November 2018
Euro 631 Million (8)	May 2014
USD 441 Million (8)	May 2014
USD 391 Million (9)	September 2014
Euro 652 Million (9)	September 2014
USD 15 Million (10)	July 2014
Eur 90 Million (10)	July 2014

Details of syndicated and securitised loans as at 31 December 2012 are as follows:

Principal	Maturity
USD 32 Million (1)	November 2014
USD 42 Million (2)	January 2014
USD 29 Million (2)	January 2014
USD 34 Million (3)	May 2014
USD 39 Million (3)	May 2014
USD 54 Million (3)	May 2014
USD 57 Million (3)	August 2013
USD 200 Million (4)	February 2015
USD 35 Million (4)	February 2014
USD 75 Million (5)	November 2016
Euro 40 Million (5)	November 2016
Euro 60 Million (5)	November 2016
Euro 60 Million (5)	November 2018
Euro 50 Million (6)	August 2024
Euro 75 Million (6)	August 2024
USD 175 Million (6)	August 2017
USD 50 Million (6)	August 2017
USD 25 Million (11)	May 2013
USD 241 Million (12)	May 2013
Euro 743 Million (12)	May 2013
USD 405 Million(13)	September 2013
Euro 573 Million(13)	September 2013
USD 15 Million (14)	July 2013
Euro 65 Million (14)	July 2013

24. Funds borrowed (continued)

(1) In November 2004, the Bank securitised all rights, title and interest to the USD, Euro or Sterling denominated payment orders created via SWIFT MT100-category messages or similar payment orders sent or delivered through foreign depository banks under a Diversified Payment Rights securitisation program ("DPR Program"). In November 2004 under the DPR Program TIB Diversified Payment Rights Finance Company issued three Series of USD-denominated floating rate notes with a total of USD 600 million. The interest rates of the outstanding Series 2004-B and 2004-C are Libor+0.36% and Libor+1.83%, respectively.

(2) In December 2005 the Bank completed a securitization transaction based on its foreign currency denominated future credit and debit card receivables from MasterCard, Cirrus, Maestro and Visa Europe Services, Inc. TIB Card Receivables Funding Company Limited issued two Series of Dollar-denominated floating rate notes (USD 200 million Series 2005-A Notes and USD 150 million Series 2005-B Notes). Related notes have variable interest rates of Libor+1.00% and Libor+0.25%, respectively.

(3) In June 2006 the Bank utilized the DPR program for the additional issuance of USD 800 million by TIB Diversified Payment Rights Finance Company (USD 100 million Series 2006-A Notes, USD 100 million Series 2006-B Notes, USD 150 million Series 2006-C Notes, USD 250 million Series 2006-D Notes and USD 200 million Series 2006-E Notes). The series 2006-D has been totally repaid. The series 2006-A, 2006-B, 2006-C and 2006-E have interest rates of Libor+0.93%, Libor+0.23%, Libor+0.16%, respectively.

(4) In March 2007, the Bank utilized the DPR program once again for the additional issuance of USD 550 million by TIB Diversified Payment Rights Finance Company (USD 400 million Series 2007-A Notes, USD 150 million Series 2007-B Notes). Related notes have variable interest rates of Libor+0.82% and Libor+0.86%, respectively.

(5) In October 2011, the Bank utilized the DPR program once again for the additional issuance of Euro 160 million and USD 75 million by TIB Diversified Payment Rights Finance Company (USD 75 million Series 2011-A Notes, Euro 40 million Series 2011-B Notes, Euro 60 million Series 2011-C Notes, Euro 60 million Series 2011-D Notes).

(6) On June 2012, the Bank utilized syndicated loan agreement signed in May 2012 once again for the additional issuance of USD 225 million and Euro 125 million by TIB Diversified Payment Rights Finance Company.

(7) In December 2013, the Bank utilized the DPR program for the additional issuance of Euro 185 million and USD 50 million by TIB Diversified Payment Rights Finance Company (USD 50 million Series 2013-A Notes, Euro 60 million Series 2013-B Notes, Euro 75 million Series 2013-C Notes, Euro 50 million Series 2013-D Notes).

(8)In May 2014, the Bank has signed a syndicated loan agreement with one-year maturity in two tranches amounting to USD 441 million and Euro 631 million, with an optional one-year extension of maturity.

(9) On 12 September 2013, the Bank has signed a syndicated loan agreement with one-year maturity in two tranches amounting to USD 391 million and Euro 652 million, with an optional one-year extension of maturity. Related loans have interest rates of Libor+0.3% and Euribor+0.3%.

(10)In July 2013, the Bank has signed a syndicated loan agreement with one-year maturity in two tranches amounting to USD 90 million and Euro 15 million, with an optional one-year extension of maturity. Related loans have interest rates of Euribor+0.7% and Libor+0.7%.

(11) As a part of the securitization program stated above, the Bank has obtained further tranches in May 2005. TIB Diversified Payment Rights Finance Company has issued additional USD-denominated floating rate notes with a total of USD 700 million. The series 2005-A have interest rates of Libor+0.15%.

(12) On 8 May 2012, the Group has signed a syndicated loan agreement with one-year maturity in two tranches amounting to USD 241 million and Euro 743 million, with an optional one-year extension of maturity. Related loans have interest rates of Libor+0.95% and Euribor+0.95%, respectively.

(13) On 19 September 2012, the Group has signed a syndicated loan agreement with one-year maturity in two tranches amounting to USD 405 million and Euro 573 million, with an optional one-year extension of maturity. Related loans have interest rates of Libor+0.85% and Euribor+0.85%, respectively.

(14) TSKB had attended the two different syndicated agreements that were named as Syndicated XI and Syndicated XII through 31 December 2012. Variable interest rate of 1.73% for US Dollar Syndicated Loan XI and variable interest rate of 1.93% for Euro Syndicated Loan XII; both repayable on 4 July 2013.

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

25. Debt securities issued

	2013	2012
Debt securities issued at amortised cost –fixed interest rate	10,577,454	6,166,293
Debt securities issued at amortised cost –variable interest rate	543,457	301,863
	11,120,911	**6,468,156**

Debt securities have a maturity varied from January 2014 to May 2020 with between 1.22% and 10.14% fixed and variable interest rates.

The Group has not had any defaults of principal, interest or other breaches with respect to its debt securities during the years ended 31 December 2013 and 2012.

26. Payables to Stock Exchange Money Market

	2013	2012
Payables to Stock Exchange Money Market	2,403,976	2,200,404
	2,403,976	**2,200,404**

As at 31 December 2013 and 2012, interest rates and maturities of payables to stock exchange money market are as follows:

		2013		
Description	**Currency type**	**Interest rate (%)**	**Maturity**	**Amount**
Principal	TL	7.50 - 8.90	2 January – 31 January 2014	2,395,567
Interest accruals	TL			8,409
				2,403,976

		2012		
Description	**Currency type**	**Interest rate (%)**	**Maturity**	**Amount**
Principal	TL	5.30 - 6.60	2 January – 5 February 2013	2,173,827
Principal	USD	1.00	11 January 2013	19,448
Interest accrual	TL			7,119
Interest accrual	USD			10
				2,200,404

27. Trade payables

At 31 December 2013 and 2012, trade payables comprised the following:

	2013	2012
Customer payables of brokerage firms	1,094,055	325,710
Other trade payables	748,643	472,673
Trade payables in manufacturing companies	631,852	519,711
	2,474,550	**1,318,094**

28. Taxation

The Group is subject to taxation in accordance with the tax procedures and the legislation effective in Turkey. Corporate income tax is 20% on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes as at 31 December 2013 (31 December 2012: 20%). Provision is made in the accompanying consolidated financial statements for the estimated charge based on the Group's results for the year.

According to the Corporate Tax Law, 75% of the capital gains arising from the sale of tangible assets and investments owned for at least two years are exempted from corporate tax on the condition that such gains are reflected in the equity from the date of the sale. The remaining 25% of such capital gains are subject to corporate tax.

Turkish tax legislation does not permit a parent company and its subsidiary to file a consolidated tax return. Therefore, provisions for taxes, as reflected in the accompanying consolidated financial statements, have been calculated on a separate-entity basis.

In Turkey, advance tax returns are filed on a quarterly basis. Advance corporate income tax rate applied in 2013 is 20% (31 December 2012: 20%). Losses can be carried forward for offset against future taxable income for up to 5 years. However, losses cannot be carried back for offset against profits from previous periods.

There is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns between 1-25 April following the close of the accounting year to which they relate. Tax authorities may, however, examine such returns and the underlying accounting records and may revise assessments within five years.

Income withholding tax

In addition to corporate taxes, companies should also calculate income withholding taxes and funds surcharge on any dividends distributed, except for companies receiving dividends who are resident companies in Turkey and Turkish branches of foreign companies. The rate of income withholding tax was 10% starting from 24 April 2003. This rate was changed to 15% in accordance with Article 15 of the Law No: 5520 commencing 23 July 2006.

Dividends paid to the resident institutions and the institutions working through local offices or representatives in Turkey are not subject to withholding tax. As per the decisions No.2009/14593 and 2009/14594 of the Council of Ministers published in the Official Gazette No.27130 dated 3 February 2009, certain duty rates included in the articles No.15 and 30 of the new Corporate Tax Law No.5520 are revised. Accordingly, the withholding tax rate on the dividend payments other than the ones paid to the nonresident institutions generating income in Turkey through their operations or permanent representatives and the resident institutions, is 15%. In applying the withholding tax rates on dividend payments to the nonresident institutions and the individuals, the withholding tax rates covered in the related Double Tax Treaty Agreements are taken into account. Appropriation of the retained earnings to capital is not considered as profit distribution and therefore is not subject to withholding tax.

The effective tax rate has been taken as 20% in 2013 (31 December 2012: 20%).

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.

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

28. Taxation (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.

Transfer pricing

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

If a taxpayer enters into transactions regarding sale or purchase of goods and services with related parties, where the prices are not set in accordance with 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.

Tax applications for foreign branches and foreign operations

The principal tax rates (%) of the tax authorities in each country used to calculate deferred taxes as of 31 December 2013 is as follows:

Country	Tax rate
Bosnia Herzegovina	16.0
Bulgaria	10.0
Egypt	25.0
Georgia	15.0
Germany	15.0
Italy	31.4
Kosovo	10.0
Northern Cyprus	10.0
Romania	16.0
Russia	20.0
The Republic of Iraq	15.0
Ukraine	19.0
United Kingdom	23.0

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

28. Taxation (continued)

Tax applications for foreign branches and foreign operations (continued)

Tax legislation in Russia is dependent on different interpretations and changes frequently. Interpretations of tax legislation made by tax authorities regarding with Group's activities may not be the same as management's.

Deferred taxes

Taxes on income for the period also comprise deferred taxes. Deferred income tax is provided, using the balance sheet method, on all taxable temporary differences arising between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liability and asset are recognised when it is probable that the future economic benefits resulting from the reversal of temporary differences will flow to or from the Bank. Deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which the deferred tax asset can be utilised. Currently enacted or substantively enacted tax rates are used to determine deferred taxes on income. These differences usually result in the recognition of revenue and expenses in different reporting periods for IFRS and tax purposes.

For calculation of deferred tax asset and liabilities, the rate of 20% (31 December 2012: 20%) is used.

Individual consolidated subsidiaries offset deferred tax asset and deferred tax liability if the deferred tax asset and deferred tax liability relate to income taxes levied by the same taxation authority. Subsidiaries that have deferred tax assets position are not netted off against subsidiaries that have deferred tax liabilities position and disclosed separately.

At 31 December 2013 and 2012, tax items in the financial position are as follows:

	2013	**2012**
Corporate tax provision	535,519	1,342,665
Corporate tax paid in advance	(365,114)	(962,123)
Corporate tax liability and prepaid tax (*)	**170,405**	**380,542**
Other taxes and dues payable	**330,425**	**287,934**
Deferred tax assets	(994,555)	(948,270)
Deferred tax liabilities	17,155	30,014
Deferred tax assets, net	**(977,400)**	**(918,256)**

(*) Corporate tax provision amount of some subsidiaries for the year ended 31 December 2013 is less than the prepaid tax payments made within the period. Therefore, TL 27,235 is not offset and is recorded as current tax assets after deducting the corporate tax provision of those subsidiaries as at 31 December 2013 (31 December 2012: TL 34,639). Net tax amount is presented in the above table.

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

28. Taxation (continued)

Deferred taxes (continued)

Deferred tax assets and liabilities are attributable to the following:

	2013	2012
Provision for the pension funds	(362,428)	(361,641)
Reserve for employee severance indemnity	(138,965)	(129,497)
Corporate tax allowance	(144,228)	(70,124)
Carried forward tax losses	(115,886)	(109,222)
Valuation difference on financial assets and liabilities	(92,289)	(257,224)
Advance commission received	(73,141)	(50,021)
Investment incentive	(12,332)	(44,985)
Property, plant and equipment	123,664	145,414
Other	(161,795)	(40,956)
Deferred tax assets, net	**(977,400)**	**(918,256)**

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

	2013	2012
Deferred tax assets, net at 1 January	**(918,256)**	**(817,147)**
Deferred income tax recognised in other comprehensive income	(330,154)	243,204
Deferred tax recognised in the income statement	271,010	(344,091)
Effects of sale of subsidiary	--	(466)
Effects of exchange rates in movements	--	244
Deferred tax assets, net at the end of the year	**(977,400)**	**(918,256)**

An analysis of the Group's income tax expense for the year ended 31 December is as follows:

	2013	2012
Current tax expense		
Current period	(621,120)	(1,363,679)
Deferred tax benefit		
Origination and reversal of temporary differences	(271,010)	344,091
Total income tax expense	**(892,130)**	**(1,019,588)**

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

28. Taxation (continued)

Reconciliation of effective tax rate

The reported taxation charge for the period ended 31 December is different than the amounts computed by applying statutory tax rate to profit before tax as shown in the following reconciliation:

	2013		2012	
	Amount	**%**	**Amount**	**%**
Profit before income tax	**5,284,911**		**5,830,922**	
Income tax using the Bank's domestic tax rate	1,056,982	20.00	1,166,184	20
Effect of tax rates in foreign jurisdictions	4,681	0.09	2,207	0.04
Share of (profit)/loss of equity accounted investees	(1,796)	(0.03)	(62,010)	(1.06)
Investment incentives	410	0.01	(51,680)	(0.89)
Dividend and other tax exempt income	(170,286)	(3.22)	(24,471)	(0.42)
Non-deductible expenses	46,274	0.88	52,530	0.90
Other(*)	(44,135)	(0.84)	(63,172)	(1.08)
	892,130	**16.89**	**1,019,588**	**17.49**

(*)The effect of current year unutilized tax losses and consolidation adjustments are included.

As at 31 December 2013, the Group has deductable tax losses amounting TL 763,209 (31 December 2012: TL 696,784). The Group has recognised deferred tax assets on tax losses amounting TL 611,228 because it is probable that future taxable profit will be available in accordance with the Group's projections (31 December 2012: TL 568,621). Expiration schedule of carry forward tax losses which are considered in deferred tax calculation is as follows:

	2013	2012
Up to 1 year	31,498	33,972
Up to 2 years	2,617	60,741
Up to 3 years	15,995	5,038
Up to 4 years	124,060	136,538
5 years and above	437,058	332,332
	611,228	**568,621**

The Group has not recognised deferred tax assets on tax losses amounting TL 151,981 because it is not probable that future taxable profit will be available against which the Group companies can utilize the benefits thereafter (31 December 2012: TL 128,163). Unutilized tax losses will expire as follows:

	2013	2012
Up to 1 year	11,724	11,603
Up to 2 years	30,702	14,472
Up to 3 years	45,828	33,525
Up to 4 years	22,885	45,679
5 years and above	40,842	22,884
	151,981	**128,163**

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

29. Provisions

At 31 December 2013 and 2012, provisions comprised provision for general banking risks, provision for non-cash loans, credit card bonus provision and other provisions. The movement of the provisions during the year ended 31 December was as follows:

	Provision for general banking risks(*)	Provision for non-cash loans	Credit card bonus provision	Other provisions	Total
Balance as at 1 January 2013	**855,000**	**102,569**	**53,442**	**181,058**	**1,192,069**
Provision set during the year	--	70,494	9,356	258,022	337,872
Collection and recoveries	--	(84,092)	--	(79,523)	(163,615)
Transfer from other provision accounts (Note 11)	--	--	--	--	--
Payments made during the year	--	--	--	--	--
Effects of exchange rates in movements	--	--	--	347	347
Balance as at 31 December 2013	**855,000**	**88,971**	**62,798**	**359,904**	**1,366,673**

	Provision for general banking risks(*)	Provision for non-cash loans	Credit card bonus provision	Other provisions	Total
Balance as at 1 January 2012	**805,000**	**85,392**	**48,160**	**236,369**	**1,174,921**
Provision set during the year	50,000	92,132	5,775	62,225	210,132
Collection and recoveries	--	(74,955)	(493)	(119,831)	(195,279)
Transfer from other provision accounts (Note 11)	--	--	--	1,902	1,902
Payments made during the year	--	--	--	--	--
Effects of exchange rates in movements	--	--	--	393	393
Balance as at 31 December 2012	**855,000**	**102,569**	**53,442**	**181,058**	**1,192,069**

(*) Provision for general banking risks amounting to TL 855,000 provided by the Group management considering the potential circumstances which may arise from any changes in the economy or market conditions.

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

30. Employee benefits

	2013	2012
Provision for defined benefit plans	1,812,155	1,809,305
Reserve for employee severance indemnity	721,499	688,149
Total employee benefits	**2,533,654**	**2,497,454**

Provision for defined benefit plans

Employees of the Bank are members of Türkiye İş Bankası A.Ş. Mensupları Emekli Sandığı Vakfı, employees of Milli Reasürans are members of "Milli Reasürans Türk Anonim Şirketi Emekli ve Sağlık Sandığı Vakfı, employees of TSKB are member of "Türkiye Sınai Kalkınma Bankası Memur ve Müstahdemleri Yardım ve Emekli Vakfı" and employees of Anadolu Sigorta are members of "Anadolu Anonim Türk Sigorta Şirketi Memurları Emekli Sandığı" (collectively "the Funds"), which are established in accordance with the temporary Article 20 of the Social Security Act No: 506 and separate legal entities and foundations recognised by an official decree, providing all qualified employees with pension and post-retirement benefits.

As per the provisional Article No: 23 of the Banking Law No: 5411, pension funds which were established within the framework of Social Security Institution Law, should be transferred to the Social Security Institution within three years after the publication of the prevailing Banking Law enacted on 1 November 2005. Methods and principles related to the transfer have been determined as per the Cabinet decision no: 2006/11345 published on 30 November 2006. However, the said article of the Banking Law has been vetoed by the President on 2 November 2005 and the execution of the article was ceased based on the Supreme Court's decision numbered E.2005/39, K.2007/33 and the decision has been cancelled from the date of publication.

Following annulment of the temporary Article 23 of the Banking Law, the new law "Amendments to the Social Security and General Health Insurance Act Including Certain Laws and Decrees" was published in the Official Gazette dated 8 May 2008 and came into force. The new law decrees that the contributors of the Bank pension funds, the ones who receive salaries or income from these funds and their rightful beneficiaries will be transferred to the Social Security Institution and will be subject to this Law within 3 years after the release date of the related article, without any need for further operation. the three-year transfer period can be prolonged for maximum 2 years by the Cabinet decision.

However related transfer period has been prolonged for 2 years by the Cabinet decision dated. 14 March 2011, which was published on the Official Gazette dated 9 April 2011 and numbered 27900. In addition, by the Law "Emendating Social Security and General Health Insurance Act", which was published on the Official Gazette dated 8 March 2012 and numbered 28227, this period of 2 years has been raised to 4 years after that related transfer period has been prolonged for one more year by the Cabinet decision dated 8 April 2013, which was published on the Official Gazette dated 3 May 2013 and numbered 28636.

The subject transfer period is extended for one year by the Council of Ministers on 8 April 2013 published on the Official Gazette dated on 3 May 2015 and numbered 28636.

The above mentioned law also includes the following:

- technical deficit rate of 9.8% shall be used in the actuarial calculation of the value in cash, and

- uncovered other rights and compensations of participants or beneficiaries of pension funds should be covered by the entities who transfer the funds.

On the other hand, the application made on 19 June 2008 by the Republican People's Party to the Constitutional Court for the annulment and motion for stay of some articles, including the first paragraph of the provisional Article 20 of the Law, which covers provisions on transfers, was rejected in accordance with the decision taken at the meeting of the afore-mentioned court on 30 March 2011.

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

30. Employee benefits (continued)

An actuarial report has been obtained from registered actuary regarding calculation of the amount to be paid to the Social Security Institution by the Group in accordance with the new law. The CSO 1980 mortality table, 9.8% of technical deficit interest rate and 33.5% of premium rate are taken into account in the calculation of the said technical deficit. No real increase / decrease is anticipated in salary and health expenses.

The health benefits to be paid will be considered by the Group management due to the changes in the Social Security Institution legislation and other regulations.

Up to date, there has not been any deficit in Türkiye İş Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik Yardımlaşma Sandığı Vakfı (Supplementary Pension Fund of İşbank Members), which has been founded by the Bank employees in accordance with the provisions of the Civil Code which provides subsequent retirement benefits; and the Group has made no payment for this purpose. It is believed that the assets of this institution are adequate enough to cover its total obligations; therefore this shall not constitute any additional liability on the Group.

At 31 December 2013 and 2012, technical deficit from pension funds comprised the following:

2013	The Bank	Milli Reasürans T.A.Ş.	Total
Net present value of total liabilities other than health	(4,900,737)	(75,086)	(4,975,823)
Net present value of insurance premiums	2,173,772	14,131	2,187,903
Net present value of total liabilities other than health	**(2,726,965)**	**(60,955)**	**(2,787,920)**
Net present value of health liabilities	(660,534)	(12,130)	(672,664)
Net present value of health premiums	1,235,098	7,744	1,242,842
Net present value of health liabilities	**574,564**	**(4,386)**	**570,178**
Pension fund assets	**376,562**	**29,025**	**405,587**
Amount of actuarial and technical deficit	**(1,775,839)**	**(36,316)**	**(1,812,155)**

2012	The Bank	Milli Reasürans T.A.Ş.	Total
Net present value of total liabilities other than health	(4,323,548)	(68,579)	(4,392,127)
Net present value of insurance premiums	1,779,033	13,313	1,792,346
Net present value of total liabilities other than health	**(2,544,515)**	**(55,266)**	**(2,599,781)**
Net present value of health liabilities	(581,571)	(10,968)	(592,539)
Net present value of health premiums	1,014,295	7,296	1,021,591
Net present value of health liabilities	**432,724**	**(3,672)**	**429,052**
Pension fund assets	**333,581**	**27,843**	**361,424**
Amount of actuarial and technical deficit	**(1,778,210)**	**(31,095)**	**(1,809,305)**

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

30. Employee benefits (continued)

Plan assets as at 31 December 2013 and 2012 are comprised of the following items:

2013	The Bank	Milli Reasürans T.A.Ş.	Total
Cash and cash equivalents	253,716	3,659	257,375
Securities portfolio	96,722	6,995	103,717
Properties	2,282	18,270	20,552
Other	23,842	101	23,943
Total plan assets	**376,562**	**29,025**	**405,587**

2012	The Bank	Milli Reasürans T.A.Ş.	Total
Cash and cash equivalents	210,692	5,469	216,161
Securities portfolio	96,928	4,561	101,489
Properties	2,282	17,680	19,962
Other	23,679	133	23,812
Total plan assets	**333,581**	**27,843**	**361,424**

The assets of Anadolu Anonim Türk Sigorta Şirketi Memurları Emekli Sandığı (Pension Fund of Anadolu Anonim Türk Sigorta Şirketi) and Türkiye Sınai Kalkınma Bankası Memur ve Müstahdemleri Yardım ve Emekli Vakfı (Pension Fund of TSKB) exceed their defined benefit obligations and therefore there are not any additional liability from those Funds to the Group.

Principal actuarial assumptions at the reporting date are as follows:

	2013	2012
Technical discount rate	9.80%	9.80%
Premium rate	34.50%	33.50% - 34.50%
Mortality rate	CSO 1980 Mortality Table	CSO 1980 Mortality Table

Reserve for employee severance indemnity

Under the Turkish Labour Law, the Bank and its Turkish subsidiaries are required to pay termination benefits to each employee who has completed one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and reaches the retirement age (58 for women and 60 for men). Since the legislation was changed on 8 September 1999, there are certain transitional provisions relating to length of service prior to retirement.

Such payments are calculated on the basis of 30 days' pay maximum full TL 3,254 as at 31 December 2013 (31 December 2012: full TL 3,034) per year of employment at the rate of pay applicable at the date of retirement or termination. Reserve for retirement pay is computed and reflected in the consolidated financial statements on a current basis. The reserve has been calculated by estimating the present value of future probable obligation of the Group arising from the retirement of the employees. The calculation was based upon the retirement pay ceiling announced by the Government.

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

30. Employee benefits (continued)

IFRS require actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly, the following actuarial assumptions are used in the calculation of the total liability:

The principal assumption is that the maximum liability for each year of service will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the anticipated effects of future inflation. Consequently, in the accompanying consolidated financial statements as at 31 December 2013, the provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees. The provision at 31 December 2013 has been calculated assuming an annual inflation rate between 5.94% – 7.50% and a discount rate between 9.54% – 9.85% resulting in a real discount rate between 3.21% - 4.30% (31 December 2012: annual inflation rate between 3.10% – 5.30% and a discount rate between 6.35% – 7.81% resulting in a real discount rate between 1.05% - 3.42%). It is planned that retirement rights will be paid to employees at the end of concession periods. Accordingly, present value of the future probable obligation has been calculated based on the concession periods.

The amount of the reserve for employee severance indemnity during the year ended 31 December was as follows:

	2013	2012
Balance at 1 January	**645,054**	**490,762**
Service cost	79,139	88,055
Interest cost	40,955	30,807
Effect of acquisition of subsidiary	1,454	1,474
Effects of change in foreign exchange rate	716	(53)
Actuarial difference	(36,523)	93,182
Payments made during the year	(59,732)	(59,173)
Balance as at 31 December	**671,063**	**645,054**
Vacation pay liability	50,436	43,095
Total	**721,499**	**688,149**

31. Other liabilities

	2013	2012
Credit card payables to affiliated merchants	3,114,503	2,640,889
Deposits and advances taken for imports	3,028,168	2,762,141
Payable to personnel	736,773	724,220
Payables to clearing accounts	640,310	1,229,884
Expense accruals	224,821	137,182
Blocked money	130,224	52,965
Payables to funds	107,746	37,071
Payment orders	99,683	87,988
Unearned revenue	62,367	413,093
Cash guarantees	41,798	76,419
Other	176,915	205,225
Other liabilities	**8,363,308**	**8,367,077**

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

32. Subordinated liabilities

	Interest Rate	Years of maturity	2013	2012
USD 1,000 million coupon fixed interest rate	6.00%	October 2022	2,135,520	1,804,451
USD 400 million coupon fixed interest rate	7.85%	December 2023	848,623	--
USD 50 million variable interest rate	Libor+3.00%	October 2016	106,759	89,125
Subordinated liabilities			**3,090,902**	**1,893,576**

On 21 September 2004, TSKB, a subsidiary of the Group, has obtained a 12-year subordinated loan of USD 50 million with maturity of 15 October 2016 from International Finance Corporation, with an interest of Libor+3.00%; which corresponds to 3.36% as at the reporting date. Principal will be paid at the end of the maturity.

On 24 October 2012, the Bank issued 10-year-term bond with a nominal value of USD 1,000 million, as a subordinated liability. The bond is issued for the individual and legal persons who are resident abroad, with maturity of 24 October 2022 and 7.85% interest rate.

The above liabilities will, in the event of the winding-up of the issuer, be subordinated to the claims of depositors and all other creditors of the issuer.

The Group has not had any defaults of principal, interest or other breaches with respect to its subordinated liabilities.

33. Capital and reserves

The Bank's share capital is divided into Group A, Group B and Group C shares.

With nominal values of full 1 Kurus Group A shares have the privileges:

- to obtain 20 times share at the distribution of bonus shares issued from conversion of extraordinary reserves and revaluation funds generated in accordance with the relevant laws (Article 18 of the Articles of Incorporation)

- to exercise 20 times of pre-emption rights (Article 19 of the Articles of Incorporation)

- for 20 voting rights (Article 49 of the Articles of Incorporation)

Despite having a lower nominal value, Group (B) shares, each with a nominal value of 1 Kuruş, have the same rights with the Group (C) shares having a nominal value of 4 Kuruş each. Furthermore, Group (A) and (B) shares, each with a nominal value of 1 Kuruş, are granted privileges in distribution of profits pursuant to Article 58 of the Articles of Incorporation.

The Bank has accepted the registered capital system set out in accordance with the Law No: 2499 of the Capital Markets Board. The registered capital is increased to TL 10,000,000 from TL 7,000,000 in the current period.

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

33. Capital and reserves (continued)

Authorized and nominal paid in capital can be analysed as follows:

		2013		2012	
Group	**Par Value (Full TL)**	**Authorized**	**Paid-in**	**Authorized**	**Paid-in**
A	0.0100	1	1	1	1
B	0.0100	29	29	29	29
C	0.0400	4,499,970	4,499,970	4,499,970	4,499,970
		4,500,000	**4,500,000**	**4,500,000**	**4,500,000**

The shareholders' structure of the Bank is presented below:

	2013		2012	
	Paid-up capital	**(%)**	**Paid-up capital**	**(%)**
Supplementary Pension Fund of İşbank Members	2,456,161	40.16	2,491,022	40.73
Republican People's Party ("CHP")	1,717,967	28.09	1,717,967	28.09
Publicly traded	1,941,810	31.75	1,906,949	31.18
	6,115,938	**100.00**	**6,115,938**	**100.00**

Legal reserves

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

As at 31 December 2013, the Group has legal reserves amounting to TL 2,657,122 (31 December 2012: TL 2,364,231).

Share premium

Excess amount of selling price and nominal value for each share was recorded as share premium in equity.

Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments, excluding impairment losses, until the investment is derecognised.

Translation reserve

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

Dividends

Regarding the profit for the year 2012, at the Ordinary General Assembly of the Bank held on 29 March 2013, it was decided to distribute a dividend of TL 796,618 to Group A, Group B and Group C shareholders, founder shareholders, Board of Directors, management and personnel and to allocate TL 228,335 to legal reserves from retained earnings. According to Turkish legislation, unconsolidated current year profit is used for profit distribution.

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

34. Net fee and commission income

An analysis of the Group's net fee and commission income for the year ended 31 December is as follows:

	2013	2012
Fee and commission income		
Credit card fees and commission	735,546	716,206
Customer investigation charges	223,458	249,221
Non-cash loan commission	233,049	191,329
Collection and payment commissions	209,370	105,358
Bank account charges	202,762	203,395
Brokerage	182,028	98,764
Money transfer charges	167,502	139,357
Investment funds portfolio management commission	115,167	113,657
Commission income from reinsurers	72,497	60,513
Other	258,970	208,662
Total fee and commission income	**2,400,349**	**2,086,462**
Fee and commission expense		
Deferred acquisition costs (Note 21)	(631,583)	(611,305)
Brokerage and other commission	(139,230)	(58,295)
Commissions given for credit cards	(128,154)	(124,163)
Stock exchange operations commission	(20,432)	(25,405)
Total fee and commission expense	**(919,399)**	**(819,168)**
Net fee and commission income	**1,480,950**	**1,267,294**

35. Income from manufacturing operations

An analysis of the Group's income from manufacturing operations for the year ended 31 December is as follows:

	2013	2012
Domestic sales	3,246,594	3,114,279
Foreign sales	3,056,510	2,621,295
Other income from manufacturing operations	11,612	3,067
Sales returns	(26,361)	(28,748)
Sales discounts	(261,277)	(291,128)
Other discounts	(72,891)	(41,890)
Total income from manufacturing operations	**5,954,187**	**5,376,875**

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

36. Income from insurance operations

	2013	2012
Premiums earned (Note 14)	3,000,199	2,902,888
Pension business technical income	115,977	126,823
Other technical income	67,922	16,764
Change in life mathematical provisions	--	77,439
Income from insurance operations	**3,184,098**	**3,123,914**

37. Other operating income

An analysis of the Group's other operating income for the year ended 31 December is as follows:

	2013	2012
Reversal of excess provision	254,576	278,547
Gain on sale of premises and equipment (net)	249,492	119,485
Insurance refund	1,819	1,769
Gain on sale of subsidiary(*)	--	336,234
Business combinations (Note 6)	--	6,516
Other	220,328	110,184
Total other operating income	**726,215**	**852,735**

(*)The Group sold its subsidiary, Gemport, to Yılport Holding A.Ş. due to the sales agreement signed between Nemtaş, the main shareholder of Gemport, and Yılport Holding A.Ş. on 1 October 2012. The sales process was completed on 14 December 2012 and Gemport started to be controlled by Yılport Holding A.Ş since 14 December 2012. The net profit from sale of Gemport recognized by the Group as at 31 December 2012 is TL 332,032.

38. Cost of manufacturing operations

An analysis of the Group's cost of manufacturing operations for the year ended 31 December is as follows:

	2013	2012
Direct materials	1,984,366	1,786,995
Production overheads	1,237,307	1,121,692
Depreciation and amortisation expenses	529,973	469,503
Direct labour	371,421	311,237
Cost of merchandises sold	322,494	280,090
Cost of construction	55,256	26,787
Cost of services given	9,197	12,627
Change in work-in-progress inventories	(4,453)	(4,303)
Change in finished goods inventories	(46,783)	(70,038)
Total manufacturing operations cost	**4,458,778**	**3,934,590**

39. Cost of insurance operations

	2013	2012
Claims paid (Note 14)	2,143,405	2,268,142
Change in provisions for outstanding claims	275,334	161,100
Change in other technical provisions	12,423	--
Change in life mathematical provisions	2,334	--
Cost of insurance operations	**2,433,496**	**2,429,242**

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

40. Other operating expenses

An analysis of the Group's other operating expenses for the year ended 31 December is as follows:

	2013	2012
General administrative expenses	5,487,327	5,278,637
Marketing, selling and distribution expenses	770,361	704,037
Provision expenses, net	459,312	75,994
Deposit insurance premium expense	220,729	148,734
Research and development expenses	53,847	45,682
Total of other operating expenses	**6,991,576**	**6,253,084**

An analysis of the Group's general administrative expenses for the year ended 31 December is as follows:

General administrative expenses	2013	2012
Salaries and employee benefits	3,015,671	2,994,824
Depreciation and amortisation expenses	381,487	319,814
Rent expense	309,282	191,753
Administration expenses	270,416	305,315
Communication expense	140,612	122,598
Judiciary expenses	93,944	98,445
Maintenance expense	68,637	38,283
Outsourcing services	66,030	36,547
Taxation expense other than income	63,145	75,027
Other	1,078,103	1,096,031
Total general administrative expenses	**5,487,327**	**5,278,637**

41. Income and cost from other operations

An analysis of the Group's income and cost from other operations for the year ended 31 December is as follows:

	2013	2012
Income from other operations		
Income from sales of property equipment of real estate firms	247,309	--
Income from medical services	86,506	83,662
Rent income from investment property of real estate firms	70,028	88,111
Income from shipping services	37,456	41,418
Other services rendered	338,457	145,038
Total income from other operations	**779,756**	**358,229**
Cost of other operations		
Cost from sales of property equipment of real estate firms	(199,665)	--
Cost from medical services	(153,698)	(139,065)
Cost of shipping services	(54,080)	(70,904)
Depreciation and amortisation expenses	(19,259)	(34,593)
Cost of rent from investment property of real estate firms	(5,235)	(38,510)
Other services rendered	(308,332)	(187,137)
Total cost of investment and other operations	**(740,269)**	**(470,209)**
Net income / (loss) from other operations	**39,487**	**(111,980)**

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

42. Impairment losses on financial assets, net

An analysis of the Group's provision for impairment on loans for the year ended 31 December is as follows:

	2013	2012
Impairment on loan losses	(978,436)	(673,379)
Collection and reversal of loan losses	636,328	677,116
Impairment losses on factoring receivables (net of collections/recoveries)	(3,662)	(8,299)
Impairment losses on finance lease receivables (net of collections/recoveries)	(14,765)	(12,555)
Impairment losses on non-cash loans (net of collections/recoveries)	(13,598)	(17,177)
Impairment losses on loans and advances	**(374,133)**	**(34,294)**

43. Segment reporting

The Group is organized in two main business segments as described below, which are the Group's strategic business units: Banking and non-banking. 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 semi-annually basis.

Banking segment includes corporate, retail and private banking, as well as treasury. Non-banking operations are followed according to insurance, 'investment and finance' and 'manufacturing and trading' segments.

The following summary describes the operations in each of the Group's reportable segments:

Banking business

The Group provides services to the large corporations, SMEs and other trading companies (excluding real trading persons) within the course of its corporate and commercial operations through various financial media. Services such as project financing, operating and investment loans, deposit and cash management, credit cards, cheques and bills, foreign trade transactions and financing, letter of guarantee, letter of credit, forfeiting, foreign currency trading, bill collections, payrolls, investment accounts, tax collections and other banking services are being provided for the aforementioned customer segments.

Services are being provided to individuals, real trading persons and non-trading corporations and institutions within the context of "Retail Banking". This customer segment's requirements are met by banking services such as deposits, consumer loans, overdraft accounts, credit cards, bill collections, remittances, foreign currency trading, safe-deposit boxes, insurance, tax collections, investment accounts and by other banking services. As for the private banking category, any kind of financial and cash management services are provided for individuals in the high-income group.

Within the context of treasury transactions, medium and long term funding is being fulfilled by tools such as security trading, money market transactions, spot and installment based TL and foreign currency trading, and derivative transactions such as forward, swap, futures and options, as well as syndication and securitization.

All other banking segments include combined information about operating segments that do not meet the quantitative thresholds.

43. Segment reporting (continued)

Non-banking business

Insurance segment includes the Group's insurance and reinsurance activities.

Investment and finance operations include the Group's leasing, factoring, brokerage, corporate finance, investment advisory, private portfolio management and real estate investment activities.

Core business of the manufacturing, trading and service segment is mainly glass production. In addition, complementary industrial and commercial operations related to glass production are included into manufacturing and trading segment as well as food production operations.

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.

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

43. Segment reporting (continued)

Based on the internal reporting, the Group reports to the management based on the IFRS figures.

	Banking business					Non-banking business					
	Corporate	Retail	Private	Treasury investment	All other banking segments	Insurance	Investment and finance	Manufacturing, trading and service	Combined	Consolidation adjustments	Total
At 31 December 2013											
Total assets	107,596,959	33,760,285	501,812	51,346,052	31,549,155	8,259,410	11,892,437	19,766,709	264,672,819	(24,012,129)	240,660,690
Total liabilities and equity	52,515,666	48,623,169	22,226,914	52,671,682	48,781,829	8,259,410	11,892,726	19,766,817	264,738,213	(24,077,523)	240,660,690
At 31 December 2012											
Total assets	85,406,995	27,301,676	403,235	55,569,076	22,013,309	7,570,377	10,002,184	14,604,802	222,871,654	(23,903,765)	198,967,889
Total liabilities and equity	50,642,398	42,741,299	17,726,355	37,177,847	40,901,399	7,570,377	9,985,839	14,604,868	221,350,382	(22,382,493)	198,967,889

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

43. Segment reporting (continued)

	Banking business					Non-banking business					
	Corporate	Retail	Private	Treasury investment	All other banking segments	Insurance	Investment and finance	Manufacturing, trading and service	Combined	Consolidation adjustments	Total
1 January - 31 December 2013											
Income statement											
Interest income	7,390,925	3,250,790	39,690	3,292,461	242,547	383,585	413,525	154,890	15,168,413	(352,464)	14,815,949
Interest expense	(1,756,933)	(1,698,923)	(1,086,472)	(1,937,726)	(517,797)	(2,279)	(345,779)	(245,375)	(7,591,284)	304,952	(7,286,332)
Net interest income	**5,633,992**	**1,551,867**	**(1,046,782)**	**1,354,735**	**(275,250)**	**381,306**	**67,746**	**(90,485)**	**7,577,129**	**(47,512)**	**7,529,617**
Fee and commission income	1,276,480	879,109	22,837	(119)	25,135	77,101	259,397	16,292	2,556,232	(155,883)	2,400,349
Fee and commission expense	(1,914)	(150)	--	(640)	(231,614)	(682,104)	(133,504)	(10,942)	(1,060,868)	141,469	(919,399)
Net fee and commission income	**1,274,566**	**878,959**	**22,837**	**(759)**	**(206,479)**	**(605,003)**	**125,893**	**5,350**	**1,495,364**	**(14,414)**	**1,480,950**
Securities trading income, net	--	--	--	160,350	--	17,362	(5,389)	477,847	650,170	(262,143)	388,027
Derivative trading income / (expense), net	--	--	--	(254,879)	--	(1,942)	(249,110)	--	(505,931)	5,167	(500,764)
Income from manufacturing operations	--	--	--	--	--	--	--	9,698,039	9,698,039	(3,743,852)	5,954,187
Income from insurance operations	--	--	--	--	--	3,200,123	--	--	3,200,123	(16,025)	3,184,098
Income from other operations	--	--	--	--	--	--	657,507	390,028	1,047,535	(267,779)	779,756
Cost of manufacturing operations	--	--	--	--	--	--	--	(8,035,346)	(8,035,346)	3,576,568	(4,458,778)
Cost of insurance operations	--	--	--	--	--	(2,437,788)	--	--	(2,437,788)	4,292	(2,433,496)
Cost of investment and other operations	--	--	--	--	--	--	(371,979)	(386,710)	(758,689)	18,420	(740,269)
Other operating income	113,010	118,712	30	103,913	133,549	23,512	13,736	445,048	951,510	(225,295)	726,215
Other operating expense	(903,090)	(1,453,675)	(28,826)	(108,909)	(2,800,900)	(411,004)	(328,649)	(1,457,046)	(7,492,099)	500,523	(6,991,576)

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

43. Segment reporting (continued)

	Banking Business					Non Banking Business					
	Corporate	**Retail**	**Private**	**Treasury investment**	**All other banking segments**	**Insurance**	**Investment and finance**	**Manufacturing, trading and service**	**Combined**	**Consolidation adjustments**	**Total**
1 January – 31 December 2013											
Income statement											
Foreign exchange gains / (losses), net	--	--	--	--	311,958	12,672	353,544	26,194	704,368	(120)	704,248
Impairment losses on loans and advances, net	--	--	--	--	(348,241)	--	(25,892)	--	(374,133)	--	(374,133)
Dividend income	--	--	--	--	480,627	44,714	74,124	268,857	868,322	(840,475)	27,847
Share of gain / (losses) of equity accounted investees	--	--	--	--	--	--	4,745	--	4,745	4,237	8,982
Profit / (loss) before taxation	**6,118,478**	**1,095,863**	**(1,052,741)**	**1,254,451**	**(2,704,736)**	**223,952**	**316,276**	**1,341,776**	**6,593,319**	**(1,308,408)**	**5,284,911**
Income tax expense	--	--	--	(783,161)	--	(36,622)	(21,767)	(52,133)	(893,683)	1,553	(892,130)
Profit for the year	**6,118,478**	**1,095,863**	**(1,052,741)**	**471,290**	**(2,704,736)**	**187,330**	**294,509**	**1,289,643**	**5,699,636**	**(1,306,855)**	**4,392,781**
Net profit attributable to:											
Equity holders of the Bank	--	--	--	--	3,928,154	187,330	296,254	1,289,643	5,701,381	(2,012,736)	3,688,645
Non-controlling interest	--	--	--	--	--	--	(1,745)		(1,745)	705,881	704,136

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

43. Segment reporting (continued)

	Banking business					Non-banking business					
	Corporate	**Retail**	**Private**	**Treasury investment**	**All other banking segments**	**Insurance**	**Investment and finance**	**Manufacturing, trading and service**	**Combined**	**Consolidation adjustments**	**Total**
1 January - 31 December 2012											
Income statement											
Interest income	6,782,870	3,094,104	45,054	3,924,604	277,692	347,946	380,367	135,414	14,988,051	(303,133)	14,684,918
Interest expense	(2,243,995)	(1,802,465)	(1,251,535)	(1,987,885)	(381,642)	(706)	(332,515)	(205,610)	(8,206,353)	301,510	(7,904,843)
Net interest income	**4,538,875**	**1,291,639**	**(1,206,481)**	**1,936,719**	**(103,950)**	**347,240**	**47,852**	**(70,196)**	**6,781,698**	**(1,623)**	**6,780,075**
Fee and commission income	651,339	588,031	17,106	126	716,734	65,425	164,285	13,462	2,216,508	(130,046)	2,086,462
Fee and commission expense	(1,956)	(82)	--	(625)	(212,372)	(654,665)	(65,916)	(9,267)	(944,883)	125,715	(819,168)
Net fee and commission income	**649,383**	**587,949**	**17,106**	**(499)**	**504,362**	**(589,240)**	**98,369**	**4,195**	**1,271,625**	**(4,331)**	**1,267,294**
Securities trading income, net	--	--	--	621,988	--	63,286	84,878	(4,695)	765,457	340	765,797
Derivative trading income / (expense), net	--	--	--	(464,827)	--	707	191,710	--	(272,410)	(11,370)	(283,780)
Income from manufacturing operations	--	--	--	--	--	--	--	8,771,343	8,771,343	(3,394,468)	5,376,875
Income from insurance operations	--	--	--	--	--	3,058,678	--	--	3,058,678	65,236	3,123,914
Income from other operations	--	--	--	--	--	--	253,380	351,252	604,632	(246,403)	358,229
Cost of manufacturing operations	--	--	--	--	--	--	--	(7,216,144)	(7,216,144)	3,281,554	(3,934,590)
Cost of insurance operations	--	--	--	--	--	(2,351,994)	--	--	(2,351,994)	(77,248)	(2,429,242)
Cost of investment and other operations	--	--	--	--	--	--	(118,370)	(370,553)	(488,923)	18,714	(470,209)
Other operating income	118,376	155,152	277	8,303	105,017	36,933	28,813	445,628	898,499	(45,764)	852,735
Other operating expense	(1,064,713)	(1,555,040)	(73,774)	(23,464)	(2,010,639)	(408,478)	(249,441)	(1,298,212)	(6,683,761)	430,677	(6,253,084)

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

43. Segment reporting (continued)

	Banking Business					Non Banking Business					
	Corporate	**Retail**	**Private**	**Treasury investment**	**All other banking segments**	**Insurance**	**Investment and finance**	**Manufacturing, trading and service**	**Combined**	**Consolidation adjustments**	**Total**
1 January – 31 December 2012											
Income statement											
Foreign exchange gains / (losses), net	--	--	--	--	443,476	(28,451)	(26,538)	(2,274)	386,213	(2,335)	383,878
Impairment losses on loans and advances, net	--	--	--	--	(13,025)	(356)	(20,913)	--	(34,294)	--	(34,294)
Dividend income	--	--	--	--	445,414	30,145	44,199	470,415	990,173	(972,901)	17,272
Share of losses of equity accounted investees	--	--	--	--	--	--	5,346	304,706	310,052	--	310,052
Profit / (loss) before taxation	**4,241,921**	**479,700**	**(1,262,872)**	**2,078,220**	**(629,345)**	**158,470**	**339,285**	**1,385,465**	**6,790,844**	**(959,922)**	**5,830,922**
Income tax expense	--	--	--	(906,238)	--	(29,645)	(41,583)	(40,526)	(1,017,992)	(1,596)	(1,019,588)
Net profit / (loss)	**4,241,921**	**479,700**	**(1,262,872)**	**1,171,982**	**(629,345)**	**128,825**	**297,702**	**1,344,939**	**5,772,852**	**(961,518)**	**4,811,334**
Net profit attributable to:											
Equity holders of the Bank	--	--	--	--	4,001,386	128,825	296,503	1,344,939	5,771,653	(1,598,248)	4,173,405
Non-controlling interest	--	--	--	--	--	--	1,199	--	1,199	636,730	637,929

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

43. Segment reporting (continued)

Financial position	Turkey	Europe	Russia	Other	Combined	Consolidation adjustments	Consolidated
At 31 December 2013							
Assets	255,861,166	6,243,884	2,794,917	138,844	265,038,811	(24,378,121)	**240,660,690**
Liabilities	213,507,941	3,404,686	2,374,660	182,131	219,469,418	(8,932,841)	**210,536,577**
Total equity	42,353,225	2,839,198	420,257	(43,287)	45,569,393	(15,445,280)	**30,124,113**
Total liabilities and equity	**255,861,166**	**6,243,884**	**2,794,917**	**138,844**	**265,038,811**	**(24,378,121)**	**240,660,690**

Financial position	Turkey	Europe	Russia	Other	Combined	Consolidation adjustments	Consolidated
At 31 December 2012							
Assets	**212,819,909**	**4,034,526**	**1,929,755**	**279,211**	**219,063,401**	**(20,095,512)**	**198,967,889**
Liabilities	173,468,301	2,641,588	1,452,889	171,800	177,734,578	(6,759,299)	170,975,279
Total equity	39,351,608	1,392,938	476,866	107,411	41,328,823	(13,336,213)	27,992,610
Total liabilities and equity	**212,819,909**	**4,034,526**	**1,929,755**	**279,211**	**219,063,401**	**(20,095,512)**	**198,967,889**

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

44. Earnings per share

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

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

The following reflects the comprehensive income and share data used in the basic earnings per share computations:

	2013	2012
Profit available to shareholders	3,688,645	4,173,405
Weighted average number of shares during the year (Million)	112,502	112,502
Basic earnings per share (full TL per share)	**0.0328**	**0.0371**

45. Related parties

In the course of conducting its banking business, the Group conducted various business transactions with related parties. These include loans, customer accounts, funds borrowed and non-cash transactions. These are all commercial transactions and realised on an arms-length basis. The volumes of related party transactions, outstanding balances at the year end and relating expense and income for the years are as follows:

Direct and indirect shareholders	2013	2012
Deposits	352,420	385,728
Interest expense	45,462	46,369

Others	2013	2012
Loans and advances	4,505	100,385
Non-cash loans	71,837	26,118
Deposits	12,564	164,550
Trade receivables	27,461	1,868
Trade payables	47,787	4,556
Interest income	375	21,233
Interest expense	(2,546)	(9,004)
Fee and commission income	188	103
Other operating income	6,227	2,097
Other operating expense	(149,510)	(109,440)
Derivative instruments	--	817
Derivative trading income, net	344	(2,231)

Compensation of key management personnel of the Group

The executive and non-executive member of Board of Directors and management received remuneration and fees amounted to TL 99,461 (31 December 2012: TL 91,782) comprising salaries and other short-term benefits.

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

46. Commitment and contingencies

	2013	**2012**
Letter of guarantees	30,615,250	22,947,461
Commitments for credit card expenditure limits	17,679,967	15,742,457
Loan granting commitments	9,186,255	6,756,749
Commitments for check payments	6,024,383	6,124,562
Letter of credits	6,903,157	5,220,486
Acceptance loans	1,494,946	1,298,250
Endorsements and other guarantees	684,252	543,885
Export commitments	16,821	13,899
Other commitments	8,882,421	8,266,303
	81,487,452	**66,914,052**

Derivative instruments

The Group has forward, swap, option and future transactions as of the reporting date. The Group's derivative transactions predominantly consist of currency swaps, forward foreign currency trading, credit default swaps, currency options and option contracts on securities. The Group has no derivative products that are detached from the host contract. Derivative financial instruments are carried at their fair value at the contract date and re-measured by their prevailing fair value in the following reporting periods. Even though some derivative transactions economically provide risk hedging, since all necessary conditions to be defined as items suitable for financial risk hedging accounting are not met, they are recognised as "held for trading purposes" within the framework of IAS 39 "Financial Instruments: Recognition and Measurement" and the profit and loss resulting from such instruments are associated with the income statement.

	2013		**2012**	
	Buy	**Sell**	**Buy**	**Sell**
Forward foreign exchange contracts	8,005,372	7,896,063	7,548,986	7,506,159
Currency swaps	23,299,465	23,101,940	9,919,805	9,219,088
Interest rate swaps	12,141,730	12,141,730	13,723,215	13,723,215
Currency options	5,816,948	5,798,968	4,235,690	4,217,136
Marketable security and index options	1,177	1,177	16,032	16,018
Currency futures	15,802	16,276	19,326	17,800
Interest rate options	1,247,637	1,247,637	1,257,956	1,257,956
Other	79,477	365,273	416,192	46,070
	50,607,608	**50,569,064**	**37,137,202**	**36,003,442**

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

46. Commitment and contingencies (continued)

Derivative instruments (continued)

	2013		2012	
	Asset	**Liability**	**Asset**	**Liability**
Currency swaps	726,643	(300,620)	60,225	(110,541)
Interest rate swaps	300,042	(558,812)	459,764	(546,205)
Interest rate options	138,927	(148,355)	39,263	(40,871)
Forward foreign exchange contracts	121,290	(188,506)	80,022	(60,798)
Currency options	1,772	(4,718)	554	--
Other	160	(489)	2,695	(2,025)
Fair value of derivatives	**1,288,834**	**(1,201,500)**	**642,523**	**(760,440)**

Fiduciary activities

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

The Group also manages 97 investment funds, which were established under the regulations of the Turkish Capital Markets Board (31 December 2012: 89). In accordance with the funds' charters, the Group purchases and sells marketable securities on behalf of funds, markets their participation certificates and provides other services in return for a management fee and undertakes management responsibility for their operations.

Commitment and contingencies in the year 2013

Litigation

In the normal course of its operations, the Group can be constantly faced with legal disputes, claims and complaints, which in most cases stem from normal insurance operations. The necessary provision, if any, for those cases are provided based on management estimates and professional advice.

Şişecam Group is involved in a lawsuit as a defendant in which USD 21,158,667 (31 December 2012: USD 21,158,667) of compensation is claimed, relating to the construction status of properties transferred during the sales of its subsidiary in 2007. Şişecam Group Management does not provide any provisions since they believe an unfavorable outcome is remote.

There is a lawsuit for the cancellation of the license of construction dated 16 July 2008 numbered 1120 given for the Pendorya Mall of TSKB GYO registered in Pendik, Doğu District, plot 105, map 865, parcel 64 and related zoning plan dated 6 November 2007 scaled 1/1000 and for motion for stay of execution against Pendik Mayoralty. TSKB GYO is also involved in the instant case and Istanbul 9th Administrative Court ordered the cancellation of the license and zoning plan with a right of appeal. As a result of the appeal, Council of State also approved the resolution of the Court on 1 December 2011.

In addition, seeking the cancellation of the 1/1000 scaled zoning plan dated 6 November 2007 by the decision of 9th Administrative Court, the plaintiff also filed a lawsuit against Pendik Municipality on the Istanbul 3rd Administrative Court ("the Court") in order to demand grant a stay of execution suspending the cancellation of the construction and occupancy permits dated 4 December 2009 numbered 101 and 14 December 2009 dated 104 numbered given for Pendorya Mall.

46. Commitment and contingencies (continued)

Litigation (continued)

The Court issued a stay of execution on 31 December 2010 regarding related occupancy permits and the Court decided on 22 September 2011 to set aside the decision of the case on the basis of that cancellation of the construction license dated 16 July 2008 numbered 1120 given to TSKB GYO for Pendorya Mall with 4 November 2010 dated resolution is due to the cancellation of 1/1000 scaled Zoning Plan. TSKB GYO involved in the position to demand the motion for stay of execution of the mentioned cancellation resolution of the Court and has presented the petition of appeal to the Council of State on 4 November 2011. The request for the cancellation of the execution has been rejected on 16 January 2012.

Development functions and construction conditions of the real estates (land use decisions) are permitted by the Zoning Plan. New 1/5000 scaled, 25 December 2010 dated Zoning Plan for the area where Pendorya Shopping Mall is located, has become effective. According to the New 1/5000 scaled Zoning Plan, the related real estate's functions has been preserved.

In accordance with the new zoning plan, 1/1000 scaled zoning plan has been prepared by Pendik Municipality and approved by the Pendik Municipality Council at 7 October 2011. Subsequent to the approval of 1/1000 scaled zoning plan by Istanbul Metropolitan Municipality, the Pendorya Mall's both construction license and occupancy permit renewal application will be made.

Pendorya Mall was built in accordance with the 1/1000 scaled Zoning Plan that was in force at the date of construction and both construction license and occupancy permits had been obtained in regular form at same date. Land amendment transactions are also completed accordingly. Land Registry records were still registered as a shopping center. Therefore, it is not expected that there will be a problem relating with the existing construction license, new license demand or operations of Pendorya Mall. As well as uncertainties about conclusion of lawsuits prevail as of report date, the Group management does not expect a conclusion that affects financial statements significantly.

Competition board investigation

As applicable to all other enterprises in Turkey, the Bank is subject to competition and antitrust laws. In November 2011 the Turkish Competition Board initiated an investigation against the Bank and 11 other banks operating in Turkey with respect to allegations of acting in concert regarding interest rates and fees on deposits and loans. On 8 March 2013, the Competition Board ruled that the Bank was to be fined TL 146,656 in connection with this investigation. While the Bank assesses that activities related to the subject to the investigation are compliance with the legislation and with this respective decision, the administrative fine given by the Competition Board is calculated as TL 109,992 after the discount within the framework of the Misdemeanors Law No. 17 of 5326 Article and was paid to Directorate of Tax Administration with the condition of keeping the legal right including the demand refund and sue against the related decision. On the other hand, in December 2013, the Bank has appealed to Ankara Administrative Court requesting stay of execution and annulment of aforesaid decision. The case has not been concluded yet and the Bank has allocated the full amount of TL 109,992 of provision in the financial statements as at 31 December 2013.

Tax audit

In order to fulfill its liabilities with respect to the articles of association of Vakouf (Vakıf senedi), the Bank made payments to "Türkiye İş Bankası A.Ş. Mensupları Munzam Sosyal Güvenlik ve Yardımlaşma Sandığı Vakfı," which is a foundation established according to Turkish Commercial Law and Civil Law. In relation to these payments made by the Bank, the tax auditors conducted an inspection of these payments, which claimed that the payments should have been considered as wage and subject to withholding tax as the beneficiaries of the payments were the employees of the Bank.

46. Commitment and contingencies (continued)

Based upon initial auditors reports for 2007 and 2008, the Turkish tax authorities notified the Bank in 2012 of their request for income tax, stamp tax and tax penalties for such years amount of TL 74 (full) million. The Bank's management is of the opinion that these payment were made in compliance with applicable legislation and that there is no legal basis for the assessments and claims raised in the tax audit reports. The Bank has applied to tax courts to cancel there tax notifications, which proceedings are continuing as of 27 February 2014. As similar assessment was made in 2013 for TL 134 (full) million relating to 2009, 2010 and 2011, for which the Bank has initiated the reconciliation process and the tax penalties are subject to juridical review. A Similar assessment was made in 2013 relating to a foundation to which other Group companies make payments, the assessments for which were TL 33 (full) million. The Group companies are coordinating with the respect to dispute such assessments. Within the context of these developments, the Group established a TL 213,702 provision as of 31 December 2013.

Other commitments

According to the agreements made among Trakya Cam Sanayii A.Ş., a subsidiary of the Group, Türkiye Petrolleri Anonim Ortaklığı. A.Ş., Shell Enerji A.Ş. and Mersin O.S.B., the Group has a commitment to purchase 246,658,000 m^3 of natural gas between 1 January 2014 and 31 December 2014 (31 December 2012: 278,189,459 m^3)

According to the agreements made among Anadolu Cam Sanayii A.Ş., a subsidiary of the Group, Shell Enerji A.Ş., Boru Hatları ve Petrol Taşıma A.Ş. (BOTAŞ) and Eskişehir Organize Sanayii Bölge Müdürlüğü, the Group has a commitment to purchase 164,735,000 m^3 of natural gas between 1 January 2014 and 31 December 2014 (31 December 2012: 168,230,000 m^3).

According to the agreements made among Soda Sanayi A.Ş., a subsidiary of the Group, Botaş - Boru Hatları ile Petrol Taşıma A.Ş. and Shell Enerji A.Ş., the Group has a commitment to purchase 762,557,163 m^3 of natural gas between 1 January 2014 and 31 December 2014 (31 December 2012: 723,701,525 m^3).

The group has a commitment to purchase total of 1.173.950.163 m^3 natural gas between 1 January 2014 and 31 December 2014.

A pledge amounting USD 62,000,000 (31 December 2012: USD 142,000,000) has been placed with first priority against vehicles with a carrying amount of TL 61,253 (31 December 2012: TL 97,637) with respect to the borrowings from financial institutions as at 31 December 2013.

Government grants

Certain expenses regarding industries related to research and development projects which have been certified by expert organizations are reviewed and evaluated so that specific proportion of these expenses are considered as grants and can be refunded within the context of the Decision No: 94/6401 made on the government grants for exporting activities in accordance with the Money Credit Coordination Board's Communiqué No: 98/10 on Research and Development Grants published by the Under Secretariat of Foreign Trade based on the decision No: 98/16 made as at 9 September 1998.

Exporting activities and other foreign currency generating operations, within the scope of the standards determined by the Ministry of Finance and Undersecretaries of Foreign Trade, are exempt from stamp tax and fees. Government grants are paid to support participating in international fairs in accordance with the decision No: 2004/11 of the Money Credit and Coordination Committee issued at 16 December 2004.

47. Ratings

As at and for the year ended 31 December 2012, the Bank's, TSKB's and İş Finansal Kiralama A.Ş.'s ratings assigned by international rating agencies are as follows;

Türkiye İş Bankası A.Ş.

MOODY'S – 20 May 2013	Rating	Outlook(*)
Bank financial strength	D+	Stable
Long-term foreign currency deposit	Baa3	Stable
Long-term local currency deposit	Baa2	Stable
Short-term foreign currency deposit	P-3	--
Short-term local currency deposit	P-2	--

FITCH RATINGS – 31 October 2013	Rating	Outlook(*)
Long-term foreign currency issuer default rating	BBB	Stable
Long-term local currency issuer default rating	BBB	Stable
Short-term foreign currency issuer default rating	F3	--
Short-term local currency issuer default rating	F3	--
National long-term rating	AAA (tur)	Stable
Viability rating	bbb	--
Support rating	3	--

STANDARD & POOR'S – 11 February 2014	Rating	Outlook(*)
Long-term counterparty credit rating	BB+	Negative
Short-term counterparty credit rating	B	--
Long-term national scale rating	trAA+	--
Short-term national scale rating	trA-1	--

(*) "Stable" indicates that the current rating will not be changed in the short term; "positive" indicates that the current rating is very likely to be upgraded and "negative" indicates that the current rating is very likely to be downgraded.

47. Ratings (continued)

TSKB

MOODY'S – 3 July 2012	Rating	Outlook
Bank Financial Strength	D+	Stable
Long-term Foreign Currency Issuer Rating	Baa3	Stable
Short-term Foreign Currency Issuer Rating	P-3	--
Long-term Local Currency Issuer Rating	Baa3	Stable
Short-term Local Currency Issuer Rating	P-3	--

FITCH RATINGS – 31 October 2013	Rating	Outlook
Long-term Foreign Currency Issuer Default Rating	BBB-	Stable
Long-term Local Currency Issuer Default Rating	BBB	Stable
Short-term Foreign Currency Issuer Default Rating	F3	--
Short-term Local Currency Issuer Default Rating	F3	--
National Rating	AAA	Stable
Support Rating	2	--

İş Finansal Kiralama A.Ş.

FITCH RATINGS – 31 October 2013	Rating	Outlook
Long-term foreign currency issuer default rating	BBB	Stable
Long-term local currency issuer default rating	BBB	Stable
Short-term foreign currency issuer default rating	F3	--
Short-term local currency issuer default rating	F3	--
National long-term rating	AAA (tur)	Stable
Support rating	2	--

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

48. Events after the reporting period

Explanations regarding issuance of bills and bonds

The issuance of bonds and bills summarized below was carried out by the Group with the different maturities and different currencies:

	Issuer	Opening Date	Nominal Value (TL)	Type	Redemption Date	Simple Interest Rate
1	T. İş Bankası A.Ş.	31 January 2014	399,647	Bill	11 Junuary 2014	10.49 %
2	T. İş Bankası A.Ş.	31 January 2014	531,301	Bill	24 September 2014	11.13 %
3	T. İş Bankası A.Ş.	31 January 2014	158,573	Bond	9 February 2015	11.47 %
4	T. İş Bankası A.Ş.	14 February 2014	133,765	Bill	21 May 2014	10.85%
5	T. İş Bankası A.Ş.	14 February 2014	466,235	Bill	6 August 2014	11.19%
6	T. İş Bankası A.Ş.	7 March 2014	348,900	Bill	11 July 2014	10.41%
7	T. İş Bankası A.Ş.	7 March 2014	507,762	Bill	19 November 2014	10.88%
8	T. İş Bankası A.Ş.	7 March 2014	62,583	Bond	25 March 2015	11.36%
9	T. İş Bankası A.Ş.	10 April 2014	510,763	Bill	16 July 2014	9.38 %
10	T. İş Bankası A.Ş.	10 April 2014	893,529	Bill	7 January 2015	10.18 %
11	T. İş Bankası A.Ş.	10 April 2014	98,146	Bond	13 May 2015	10.31 %
12	İş Finansal Kiralama A.Ş.	15 April 2014	100,000	Bond	14 April 2016	11.60 %
13	İş Finansal Kiralama A.Ş.	24-25 February 2014	100,000	Bond	25 February 2016	12.32 %
14	İş Gayrimenkul Yatırım Ortaklığı AŞ.	28 March 2014	100,000	Bond	7 April 2016	12.24 %

Explanations regarding the merger, acquisition settlements and liquidation of the subsidiaries

In the Board of Directors' meeting held on 17 January 2014, it has been decided that the Company and one of its subsidiaries, Paşabahçe Cam Sanayii ve Tic. AŞ would be jointly guarantor for the loans with a maturity of 7 years and obtained from HSBC Bank PLC amounting to Ruble 1,625,000,000 by the sum of Ruble 422,500,000 and Ruble 1,202,500,000 for OOO Posuda that is operating in Russian Federation.

In the Board of Directors meeting of the Company held on 31 January 2014, it was decided that the Company and Anadolu Cam Sanayii A.S., a subsidiary of the Group, will be joint and collateral guarantors for OOO Ruscam Kuban, OOO Ruscam Glass Packaging Holding and OOO Ruscam, subsidiaries of the Group operating in Russia, to obtain borrowing of USD 12.5 Million (equivalent of RUB 417.5 Million) with a 3-year maturity.

As a result of the assessments made with the consultancy firm DTZ Pamir & Soyuer Gayrimenkul Danışmanlık AŞ, from which the Group purchases consultancy services regarding the sale of the land in Beykoz, a fixed asset of the Company, it was decided to renounce from the tender sale of the land at that time. Apart from that, DTZ continues their investigation on the sale of the land and other possible methods to benefit from the asset.

İş Girişim's portfolio of venture capital investments full output perform due 31December 2013 as III-48-3 No. Venture Capital Investment Trusts Basis Communiqué 22.1.b specified in Article minimum of 51% of venture capital investment made on the portfolio limitations adapt to the inability to and to ensure compliance with these restrictions, in accordance with Article 24.2 of the Communiqué of 31 December 2015 be given until the request by the Capital Markets Board on 27 January 2014 was received positively.

48. Events after the reporting period (continued)

Explanations regarding the merger, acquisition settlements and liquidation of the subsidiaries (continued)

In the context of "Capital Associates, Share Transfer and Shareholders Convention" agreement which was signed with Numnum's shareholders on 19 October 2012, İş Girişim will pay TL 1,000 in two equal instalments on January 2014 and January 2015 due for acquisition of total share transfers from Mehmet Gürs. İş Girişim has made first payment amounting to TL 500 as first installement on 21 January 2014.

Since half of the sum of share capital and legal reserves of Camiş Menkul Değerler A.Ş. is free of charge due to loss on the balance sheet as at 31 December 2012. In accordance with the first paragraph of Article 376 of Turkish Commercial Code, " if the half of the sum of share capital and legal reserves is understood to be free of charge due to loss on the prior year balance sheet, Board of Directors immediately convokes General Assembly takes necessary precautions", Board of Directors met at 28 March 2013 to discuss necessary precautions.According to mentioned precautions and decisions that were made by the Board of Directors, Denizli and Batman contact offices activities was ended as of 31 December 2013, also contact Office of Van's activities was ended as of 30 June 2013 and decrease in other operating expenses in order to ensure the restructuring decision was taken.

In 2013, Camiş Menkul Değerler A.Ş. reducing the number of employees from 54 to 40 in personnel expenses and operating expenses total savings was 11% compared to the previous year total savings.However, Camiş Menkul Değerler A.Ş. held as of 31 December 2013 in the financial statements and the statutory capital reserves due to loss of half of the total situation continues to remain unrequited. As it is known, "Investment services and activities with ancillary services communiqué about the principles" and "Capital of Brokerage Houses and Capital Adequacy Communiqué Amending the Communiqué on Principles" were published and effective date of these Communiqués determined as 1 July 2014. Until the effective date which will be given by the parent company in realizing the company's activities narrow, partial or wide-authorized brokerage firm authorized to be decided by the minimum equity capital is planned to be completed.Besides, as of 31 December 2013 company had capital adequacy base surplus.

As of 31 January 2014, TSKB has sold all Takasbank-Istanbul Takas ve Saklama Bankası A.Ş. shares representing 5% of its shares nominal amount of TL 21,000 to Borsa Istanbul A.Ş. at a price of TL 33,390 and the sale amount was collected within the same day.

Established in The United Arab Emirates in order to operate in the capital markets "Is Investment Gulf Limited" which is the subsidiary of the Bank with all shares, it has been decided to liquidate and end its activity.

Explanations regarding the changed name of the company

In according to the Communiqué on Principles Regarding of Capital Markets Bord, the name of İş B Tipi Yatırım Ortaklığı A.Ş. was changed to İş Yatırım Ortaklığı A.Ş. on 11 April 2014.

Explanations regarding the registered share capital ceiling

As of 3 April 2014, the total registered share capital ceilings of İş Girişim is decided to be increased from TL 66,654,000 to TL 74,652,480.