

**TURKISH BANK A.Ş.
AND ITS SUBSIDIARIES**

**CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2012**

To the Board of Directors of
Turkish Bank A.Ş.
İstanbul

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying consolidated financial statements of Turkish Bank A.Ş. (the "Bank") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

The Group's 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2012 and of its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we would like to draw your attention to the following matter:

The Group management has identified reconciliation errors in some of the client accounts of the Group's subsidiary Turkish Yatırım A.Ş.'s Bursa Branch during a review performed and allocated TL 400 thousand of provision in the accompanying financial statements. Aforementioned reconciliation process has not been finalized as of the reporting date and there is an uncertainty about non-reconciled client requests. The Capital Market Board has been notified about the matter and the process is still ongoing.

DRT BAĞIMSIZ DENETİM VE SERBEST MÜHÜR A.Ş.

DRT BAĞIMSIZ DENETİM VE SERBEST MUHASEBECİ MALİ MÜŞAVİRLİK A.Ş.
Member of **DELOITTE TOUCHE TOHMATSU LIMITED**

İstanbul, 18 April 2013

CONTENTS

	PAGE
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	1-2
CONSOLIDATED STATEMENT OF INCOME	3
CONSOLIDATED STATEMENT OF CHANGES IN OTHER COMPREHENSIVE INCOME	4
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	5
CONSOLIDATED STATEMENT OF CASH FLOWS	6
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	7-71

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012**

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

<u>ASSETS</u>	<u>Notes</u>	<u>31 December 2012</u>	<u>31 December 2011</u>
Cash and cash equivalents	5	9,012	6,871
Balances with the Central Bank	6	35,730	30,652
Balances with banks	7	363,681	405,222
Money market placements	8	6,665	50,318
Financial assets at fair value through profit or loss			
-Derivative financial instruments	9, 27	144	571
Reserve deposits at the Central Bank	6	16,805	24,692
Loans and receivables	10	395,633	263,487
Finance lease receivables	11	6,470	9,439
Factoring receivables	12	24,106	40,022
Available-for-sale financial assets	13	72,975	79,542
Property and equipment	14	9,456	10,303
Intangible assets	15	936	1,081
Deferred tax asset	20	1,618	1,693
Other assets	16	39,819	23,281
TOTAL ASSETS		<u>983,050</u>	<u>947,174</u>

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

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012**

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

<u>LIABILITIES AND EQUITY</u>	<u>Notes</u>	<u>31 December 2012</u>	<u>31 December 2011</u>
<u>LIABILITIES</u>			
Deposits	17	599,884	535,857
Obligations under repurchase agreements	18	55,558	45,693
Borrowings	19	95,203	178,547
Derivative financial instruments	27	335	15
Securities issued		14,707	-
Corporate tax payable	20	789	21
Employee benefits	21	1,337	1,030
Other provisions	21	1,358	1,109
Other liabilities	22	46,281	28,977
TOTAL LIABILITIES		815,452	791,249
<u>EQUITY</u>			
Share capital issued	23	157,500	80,000
Adjustment to share capital		6,868	25,900
Premium in excess of par		-	37,448
Unrealized gains/(losses) on available for sale financial assets, (net of tax)	23	700	(2,616)
Legal reserves		4,590	4,359
Other reserves and retained earnings		(2,060)	10,834
TOTAL EQUITY		167,598	155,925
TOTAL LIABILITIES AND EQUITY		983,050	947,174

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

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012**

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

	Notes	1 January- 31 December 2012	1 January- 31 December 2011
INTEREST INCOME			
Interest on loans and receivables		46,524	35,010
Interest on securities		6,653	6,639
Interest received from banks		8,781	10,446
Interest received from money market placements		458	439
Other interest income		7,109	8,104
		<u>69,525</u>	<u>60,638</u>
INTEREST EXPENSES			
Interest on deposits		(29,741)	(24,505)
Interest on borrowings		(2,474)	(3,895)
Interest on money market borrowings		(3,205)	(2,245)
		<u>(35,420)</u>	<u>(30,645)</u>
NET INTEREST INCOME		<u>34,105</u>	<u>29,993</u>
Fee and commission income		17,060	16,924
Fee and commission expenses		(2,112)	(1,834)
Net fee and commission income		<u>14,948</u>	<u>15,090</u>
Net foreign currency gains / (losses)		(6,840)	9,478
Gain / (loss) on derivative financial instruments		9,649	(6,924)
Net securities trading gains		540	1,434
Total trading income		<u>3,349</u>	<u>3,988</u>
Impairment losses		(4,631)	(2,622)
NET OPERATING INCOME AFTER IMPAIRMENT LOSSES		<u>47,771</u>	<u>46,449</u>
Other operating income	24	6,313	2,370
Other operating expenses	25	(52,889)	(46,936)
INCOME BEFORE TAXATION		<u>1,195</u>	<u>1,883</u>
Income tax expense	20	(338)	(217)
NET INCOME FOR THE YEAR		<u>857</u>	<u>1,666</u>
Attributable to:			
Equity holders of the parent		857	1,666
NET INCOME		<u>857</u>	<u>1,666</u>

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

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF CHANGES IN OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012**

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

	1 January- 31 December 2012	1 January- 31 December 2011
Net income for the year	857	1,666
<u>Other comprehensive income</u>		
Fair value gains / (losses) on available-for-sale financial assets, net of tax	3,316	(3,738)
Net change in fair values	4,041	(2,424)
Net amount transferred to income	(725)	(1,314)
Other comprehensive income for the year, net of tax	3,316	(3,738)
<u>Total comprehensive income/(expense) for the year</u>	<u>4,173</u>	<u>(2,072)</u>
<u>Total comprehensive income/(expense) attributable to equity holders of the Parent</u>	<u>4,173</u>	<u>(2,072)</u>

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

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012**

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

	Share Capital	Adjustment to share capital	Premium in Excess of Par	Unrealized gains/(losses) on available for sale financial assets, (net of tax)	Legal reserves	Accumulated gains/(losses)	Total equity attributable to equity holders of the Bank	Non- controlling interest	Total equity
Balances at 1 January 2011	80,000	25,900	37,448	1,122	3,913	9,614	157,997	-	157,997
Total comprehensive income for the year									
- Profit for the year	-	-	-	(3,738)	-	1,666	(2,072)	-	(2,072)
- Other comprehensive income, net of tax	-	-	-	-	-	1,666	1,666	-	1,666
	-	-	-	(3,738)	-	-	(3,738)	-	(3,738)
Transfer to legal reserves	-	-	-	-	446	(446)	-	-	-
Balance at 31 December 2011	80,000	25,900	37,448	(2,616)	4,359	10,834	155,925	-	155,925
Balances at 1 January 2012									
Total comprehensive income for the year									
- Profit for the year	-	-	-	3,316	-	857	4,173	-	4,173
- Other comprehensive income, net of tax	-	-	-	-	-	857	857	-	857
	-	-	-	3,316	-	-	3,316	-	3,316
Capital Increase									
- Cash	7,500	-	-	-	-	-	7,500	-	7,500
- Transfer from reserves	70,000	(19,032)	(37,448)	-	-	(13,520)	-	-	-
Transfer to legal reserves	-	-	-	-	231	(231)	-	-	-
Balance at 31 December 2012	157,500	6,868	-	700	4,590	(2,060)	167,598	-	167,598

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

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012**

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

	Note	1 January – 31 December 2012	1 January – 31 December 2011
Cash flows from operating activities			
Net income for the year		857	1,666
Adjustments for:			
Depreciation and amortization expense	14,15	2,043	2,137
Provision for loan losses		4,631	2,622
Income tax expense	20	338	217
Provision for employee termination benefits and unused vacation pay	21	738	441
Bonus accrual		544	925
Other provisions		535	-
Interest and commission income accrual, net		804	(2,737)
Interest expense accrual, net		(766)	476
Interest accrual on cash and cash equivalents, net		(933)	1,467
Other expense accruals, net		(114)	(50)
Derivative accruals, net		747	1,236
Gain on sale of property and equipment		13	2
Operating profit before changes in operating assets and liabilities		9,437	8,402
Changes in operating assets and liabilities:			
Net decrease in reserve deposits with the Central Bank		7,887	13,921
Net (increase)/ decrease in loans and advances to customers		(135,147)	137,453
Net decrease in finance lease receivable		2,927	1,712
Net (increase) / decrease in factoring receivable		14,741	(14,685)
Net increase in investment securities		9,477	3,366
Net (increase)/decrease in other assets		(16,328)	1,348
Net increase in other liabilities		31,908	3,350
Payments / proceeds from other borrowed funds, net		(73,031)	(10,896)
Net increase / (decrease) in customer deposits and due to other banks		64,275	(96,089)
		(83,854)	47,882
Income taxes paid		(518)	(1,461)
Employee termination benefits paid		(398)	(314)
Bonus paid		(577)	(947)
Net cash generated by/(used in) operating activities		(85,347)	45,160
Purchase of property and equipment	14,15	(1,064)	(1,451)
Net cash generated by investing activities		(1,064)	(1,451)
Proceed from shares issued		7,500	-
Net cash used in financing activities		7,500	-
Net change in cash and cash equivalents		(78,911)	43,709
Cash and cash equivalents at the beginning of the year		492,854	449,145
Cash and cash equivalents at the end of the year		413,943	492,854

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

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

1. GENERAL INFORMATION

Turkish Bank A.Ş. ("the Bank") was incorporated in Turkey on 14 September 1991 and commenced operations on 25 December 1991. The registered office address of the Bank is as follows: Vali Konağı Cad. 1, 34371 Nişantaşı - İstanbul, Turkey. The Bank operates 19 branches (2011: 20). Number of employees as of 31 December 2012 is 276 (31 December 2011: 273).

Pursuant to the permission of Competition Board dated 8 November 2008 and numbered 07-85/1045-405 and the permission of Banking Regulation and Supervision Agency dated 28 December 2008 and numbered 17591, National Bank of Kuwait acquired 31.43% of shares of the Bank amounting to TL 22,000 Thousand from Özyol Holding A.Ş. The Board of Directors approved the acquisition on 10 January 2008 and the share transfer was registered on 29 January 2008.

Upon the resolution carried at the extraordinary general meeting of the shareholders held on 29 January 2008, the Bank's paid-in capital (TL 70,000 Thousand) was raised to TL 80,000 Thousand by a cash increase of TL 10,000 Thousand. Increase in paid-in capital was registered in the Trade Registry Gazette No: 6995 on 8 February 2008. The entire increase amount was paid in by the new shareholder National Bank of Kuwait as of the date of the extraordinary general meeting. The share of National Bank of Kuwait in the Bank's paid in capital increased to 40% after the capital increase. The shares issued during the capital increase are premium shares. National Bank of Kuwait paid TL 47,448 Thousand (USD 40,000,000) in respect of nominal shares of TL 10,000 Thousand and the difference of TL 37,448 Thousand was accounted as premium in excess of par.

At the extraordinary general meeting of the Bank held on 25 May 2012, the following decisions have been made by the majority of votes:

- The Bank's paid in capital amounting to TL 80,000 will be increased to TL 175,000 and TL 70,000 of the increased amount will be covered by internal resources, including TL 37,448 of Share Premiums, TL 19,032 of Inflation Difference, TL 13,520 of Extraordinary Reserves and the remaining amount, which equals to TL 25,000, will be covered in cash; and
- TL 25,000 of cash of which is the committed part of the capital increase will include TL 7,500 of payment in June 2012 and April 2013 (totaling to TL 15,000) and TL 10,000 of payment in April 2014 with reserving the Bank's General Assembly's earlier payment call right.

Procedures both related to TL 70,000 of the increased capital amount which will be covered by internal resources and the first TL 7,500 of capital increase portion were completed upon the Banking Regulation and Supervision Agency's letters of approval issued as at 28 May 2012 and 10 August 2012, respectively and related accounting was recognized in the financial statements accordingly.

Since one of the Bank's main shareholder's, namely National Bank of Kuwait, did not participate in the capital increase, its interest in the Bank's paid in capital as of the balance sheet date is decreased to 38.10% (31 December 2011: 40.00%) and subsequent to the payment of TL 17,500 of the remaining capital increase commitment by the shareholders, its interest will decrease to 34.29%. Accordingly, as of the balance sheet date, other main shareholders', namely Özyol Holding A.Ş and Mehmet Tanju Özyol, interests in the paid in capital is increased to 55.49% (31 December 2011: 53.77%) and 5.33% (31 December 2011: 5.17%), respectively subsequent to their contribution to the capital increase. Following the full capital commitment payment, their interests will be increased to 58.92% and 5.66%, respectively.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

1. GENERAL INFORMATION (cont'd)

Nature of Activities of the Group

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

The operations of the Group consist of banking, securities brokerage, leasing and factoring.

The subsidiaries included in the consolidation and the effective shareholding percentages of the Group as of 31 December 2012 and 2011 are as follows:

	Place of Incorporation	Effective Shareholding and Voting Rights %	
		31 December 2012	31 December 2011
Turkish Yatırım A.Ş.	Turkey	99.99	99.99
Turkish Finansal Kiralama A.Ş.	Turkey	99.99	99.99
Turkish Faktoring Hizmetleri A.Ş.	Turkey	99.99	99.99

Turkish Yatırım A.Ş.

Turkish Yatırım A.Ş. was established on 31 December 1996 to deal with capital market activities according to the related regulations and the Capital Market Law. The head office of the Company is located at the address of Abdi İpekçi Caddesi, No: 57, Reasürans Han Kat: 5 Harbiye - İstanbul - Turkey.

Turkish Finansal Kiralama A.Ş.

Turkish Finansal Kiralama A.Ş. was established on 9 May 2007 to provide financial leasing services to corporate customers, investing in industrial machinery and equipment, various equipment and transport vehicles.

Turkish Faktoring Hizmetleri A.Ş.

Turkish Faktoring Hizmetleri A.Ş. was established on 9 May 2007 to provide both domestic and export factoring services to industrial and commercial enterprises.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2. ADOPTION OF NEW AND REVISED STANDARDS

New and Revised IFRSs affecting presentation and disclosure only

None.

New and Revised IFRSs affecting the reported financial performance and / or financial position

None.

New and Revised IFRSs applied with no material effect on the consolidated financial statements

The following new and revised standards below have been applied in the current year. The standards have not affected the amounts reported in the financial statements for the current and previous years but may affect the accounting of the transactions that will be made in the future.

Amendments to IAS 12 Deferred Taxes – Recovery of Underlying Assets

The amendment is effective for annual periods beginning on or after 1 January 2012. IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 *Investment Property*. The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will, normally be, through sale. The Group does not have investment property therefore the amendment did not have any effect on the accompanying financial statements.

Amendments to IFRS 7 Disclosures - Transfers of Financial Assets

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

These amendments to IFRS 7 did not have a significant effect on the Group's disclosures. However, if the Group enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2. ADOPTION OF NEW AND REVISED STANDARDS (cont'd)

New and Revised IFRSs in issue but not yet effective and not early adopted by the Group and amendments and interpretation for the current standards

Amendments to IAS 1	<i>Presentation of Items of Other Comprehensive Income¹</i>
Amendments to IAS 1	<i>Clarification of the Requirements for Comparative Information²</i>
IFRS 9	<i>Financial Instruments⁵</i>
IFRS 10	<i>Consolidated Financial Statements³</i>
IFRS 11	<i>Joint Arrangements³</i>
IFRS 12	<i>Disclosure of Interests in Other Entities³</i>
IFRS 13	<i>Fair Value Measurement³</i>
Amendments to IFRS 7	<i>Disclosures – Offsetting Financial Assets and Financial Liabilities³</i>
Amendments to IFRS 9 and IFRS 7	<i>Mandatory Effective Date of IFRS 9 and Transition Disclosures⁵</i>
Amendments to IFRS 10, IFRS 11 and IFRS 12	<i>Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guide³</i>
IAS 19 (as revised in 2011)	<i>Employee Benefits³</i>
IAS 27 (as revised in 2011)	<i>Separate Financial Statements³</i>
IAS 28 (as revised in 2011)	<i>Investments in Associates and Joint Ventures³</i>
Amendments to IAS 32	<i>Offsetting Financial Assets and Financial Liabilities⁴</i>
Amendments to IFRSs	<i>Annual Improvements to IFRSs 2009-2011 Cycle except for the amendment to IAS 1³</i>
IFRIC 20	<i>Stripping Costs in the Production Phase of a Surface Mine³</i>

¹ Effective for annual periods beginning on or after 1 July 2012.

² Effective for annual periods beginning on or after 1 January 2013 as part of the *Annual Improvements to IFRSs 2009-2011 Cycle* issued in May 2012.

³ Effective for annual periods beginning on or after 1 January 2013.

⁴ Effective for annual periods beginning on or after 1 January 2014.

⁵ Effective for annual periods beginning on or after 1 January 2015.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2. ADOPTION OF NEW AND REVISED STANDARDS (cont'd)

New and Revised IFRSs in issue but not yet effective and not early adopted by the Group and amendments and interpretation for the current standards (cont'd)

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* are effective for the annual periods beginning on or after 1 July 2012. The amendments introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed the 'statement of profit or loss and other comprehensive income' and the 'income statement' is renamed the 'statement of profit or loss'. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments can be applied retrospectively. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Amendments to IAS 1 Presentation of Financial Statements (as part of the Annual Improvements to IFRSs 2009-2011 Cycle issued in May 2012)

The amendments to IAS 1 as part of the *Annual Improvements to IFRSs 2009-2011 Cycle* are effective for the annual periods beginning on or after 1 January 2013.

IAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to IAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

All recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2. ADOPTION OF NEW AND REVISED STANDARDS (cont'd)

New and Revised IFRSs in issue but not yet effective and not early adopted by the Group and amendments and interpretation for the current standards (cont'd)

IFRS 9 Financial Instruments (cont'd)

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability, that is attributable to changes in the credit risk of that liability, is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

The Group management anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Key requirements of these five Standards are described below.

IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. SIC-12 *Consolidation - Special Purpose Entities* will be withdrawn upon the effective date of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is, control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's return. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11 replaces IAS 31 *Interests in Joint Ventures*. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 *Jointly Controlled Entities - Non-monetary Contributions by Venturers* will be withdrawn upon the effective date of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportional consolidation.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2. ADOPTION OF NEW AND REVISED STANDARDS (cont'd)

New and Revised IFRSs in issue but not yet effective and not early adopted by the Group and amendments and interpretation for the current standards (cont'd)

New and revised Standards on consolidation, joint arrangements, associates and disclosures (cont'd)

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

In June 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these IFRSs for the first time.

These five standards together with the amendments regarding the transition guidance are effective for annual periods beginning on or after 1 January 2013, with earlier application permitted provided all of these standards are applied at the same time.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 *Financial Instruments: Disclosures* will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Group management anticipates that IFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

Amendments to IFRS 7 and IAS 32 Offsetting Financial Assets and Financial Liabilities and the related disclosures

The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realization and settlement'.

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2. ADOPTION OF NEW AND REVISED STANDARDS (cont'd)

New and Revised IFRSs in issue but not yet effective and not early adopted by the Group and amendments and interpretation for the current standards (cont'd)

Amendments to IFRS 7 and IAS 32 Offsetting Financial Assets and Financial Liabilities and the related disclosures (cont'd)

The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to IAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The Group management anticipates that the application of these amendments to IAS 32 and IFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

IAS 19 Employee Benefits

The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net-interest' amount, which is calculated by applying the discount rate to the net defined benefit liability or asset. The amendments to IAS 19 require retrospective application. However, it is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

Annual Improvements to IFRSs 2009 - 2011 Cycle issued in May 2012

The Annual Improvements to IFRSs 2009 - 2011 Cycle include a number of amendments to various IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to IFRSs include:

- Amendments to IAS 16 *Property, Plant and Equipment*; and
- Amendments to IAS 32 *Financial Instruments: Presentation*.

Amendments to IAS 16

The amendments to IAS 16 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in IAS 16 and as inventory otherwise. The Group management does not anticipate that the amendments to IAS 16 will have a significant effect on the Group's consolidated financial statements.

Amendments to IAS 32

The amendments to IAS 32 clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 *Income Taxes*. The Group management does not anticipate that the amendments to IAS 32 will have a significant effect on the Group's consolidated financial statements.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

2. ADOPTION OF NEW AND REVISED STANDARDS (cont'd)

New and Revised IFRSs in issue but not yet effective and not early adopted by the Group and amendments and interpretation for the current standards (cont'd)

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine (production stripping costs). Under the Interpretation, the costs from this waste removal activity (stripping) which provide improved access to ore is recognized as a non-current asset (stripping activity asset) when certain criteria are met, whereas the costs of normal on-going operational stripping activities are accounted for in accordance with IAS 2 *Inventories*. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset and classified as tangible or intangible according to the nature of the existing asset of which it forms part.

IFRIC 20 is effective for annual periods beginning on or after 1 January 2013. Specific transitional provisions are provided to entities that apply IFRIC 20 for the first time. However, IFRIC 20 must be applied to production stripping costs incurred on or after the beginning of the earliest period presented. The Group management anticipates that IFRIC 20 will have no effect to the Group's consolidated financial statements as the Group does not engage in such activities.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Statement of compliance:

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS").

3.2 Basis of preparation:

The consolidated financial statements have been prepared on the historical cost basis except for those assets and liabilities measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

3.3 Basis of presentation of consolidated financial statements:

The Bank and its subsidiaries maintain their books of account and prepare their financial statements in accordance with the Banking Act, based on accounting principles regulated by the Banking Regulation and Supervision Agency ("BRSA"), Capital Market Board ("CMB") and the other relevant rules and regulations regulated by the Turkish Commercial Code and Turkish tax legislation and relevant accounting rules and regulations. The accompanying consolidated financial statements are based on the statutory records, with adjustments and reclassifications, including restatement for the changes in the general purchasing power of the Turkish Lira in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies" until 1 January 2006, for the purpose of fair presentation in accordance with IFRS.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Inflation accounting:

The financial statements of the Bank and its subsidiaries for the periods before 1 January 2006 were adjusted to compensate for the effect of changes in the general purchasing power of the Turkish Lira based on IAS 29. Turkish Economy is accepted to come off its highly inflationary status as of 1 January 2006. Based on this consideration, IAS 29 has not been applied in the preparation of the consolidated financial statements since 1 January 2006. Amounts expressed in the measuring unit current at 31 December 2005 were treated as the basis for the carrying amounts after 1 January 2006.

3.5 Consolidation:

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank (its subsidiaries). Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

3.6 Income and Expense Recognition:

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business. Interest and other income and expenses are recognized on an accrual basis, except for fees and commissions for various banking services rendered which are recognized as income when received. Dividend income from investments is recognized when the shareholders' rights to receive payment have been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Interest income on overdue loans is recognized on a cash basis when collected. Income and expenses are recognized at fair value or amortized cost basis. For the purpose of convenience, certain income and expenses are recognized on a straight line basis wherever does not materially differ from fair value or amortized cost method.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.7 Functional and Presentation Currency and Foreign Currency Transactions:

Functional and presentation currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Turkish Lira (TL), which is the functional currency of the Bank and its subsidiaries, and the presentation currency for the consolidated financial statements.

Foreign currency translation

In preparing the financial statements of the individual entities, transactions in currencies other than TL (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise.

As at 31 December 2012 and 31 December 2011 foreign currency assets and liabilities of the Group are mainly in US Dollar and Euro. As at 31 December 2012 and 31 December 2011 exchange rates of US Dollar and Euro are as follows:

	31 December 2012	31 December 2011
1 US Dollar	1.7826	1.9065
1 Euro	2.3517	2.4592

Average rates are as follows:

	1 January – 31 December 2012	1 January – 31 December 2011
1 US Dollar	1.7789	1.8578
1 Euro	2.3318	2.4515

3.8 Financial assets:

Investments are recognized and derecognized on a trade date where the purchase or sale of an investment under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets as 'at fair value through profit or loss' (FVTPL), 'held-to-maturity investments', 'available-for-sale' (AFS) financial assets and 'loans and receivables'.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.8 Financial assets (cont'd):

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognized on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets at FVTPL

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorized as held for trading unless they are designated as hedges.

Held-to-maturity investments

Investments in debt securities with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less impairment, with revenue recognized on an effective yield basis. The Group does not have held-to-maturity investments as of the balance sheet date.

Available-for-sale financial assets

Investments other than held-to-maturity debt securities and held for trading securities are classified as available-for-sale, and are measured at subsequent reporting dates at fair value except available-for-sale investments that do not have quoted prices in active markets and whose fair values cannot be reliably measured are stated at cost and restated to the equivalent purchasing power. Gains and losses arising from changes in fair value are recognized directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the profit or loss for the period. Impairment losses recognized in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss.

Impairment losses recognized in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

The Group's investments are composed of Turkish Republic Government bonds, Treasury bills and Eurobonds which are accounted for at the fair value of the consideration given (at cost) at initial recognition determined by reference to the transaction price or market prices and subsequently measured as explained above in accordance with their classification.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.8 Financial assets (cont'd):

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortized cost using the effective interest method less any impairment.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in equity.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments which their maturities are three months or less from date of acquisition and that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

3.9 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. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.8 Financial liabilities (cont'd):

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL. Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability.

The Group does not have financial liabilities at FVTPL as of 31 December 2012 and 2011.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest-bearing deposits and borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognized over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

Equity instruments

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

Off balance sheet commitments and contingencies

The Group deals with off-balance sheet risk in the normal course of business such as letters of guarantee, letters of credit, prefinancing loans, etc. The Group's exposure to credit losses arising from these instruments is represented by the contractual amount of those instruments.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.10 Fair value considerations:

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable willing parties in an arms-length transaction. Fair value is best evidenced by a market price, being the amount obtainable from the sale, or payable on the acquisition, of a financial instrument in an active market, if one exists.

Various financial instruments are accounted for at fair value. Other financial instruments are accounted for at amortized cost but disclosure is required of fair value for comparison purposes, wherever practicable.

Due to economic conditions and volatility or low trading volumes in markets, the Group may be unable, in certain cases, to find a market price in an actively traded market. In such cases, other measures of fair value are considered. These include comparison with similar financial instruments that do have active markets, and calculation of present values on an amortized cost basis. Where no reliable estimate of fair value is available, amortized cost is used as the carrying value. As there are a wide range of valuation techniques, it may be inappropriate to compare the Group's fair value information to independent markets or to other financial institutions' fair value information.

For certain financial assets and liabilities carried at cost, the fair values are assumed not to differ significantly from cost, due to the short-term nature of the items involved or because interest rates applicable to such items are variable at such short notice that interest income or expense on such items would never differ significantly from market rates.

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value.

Central Bank accounts and balances with banks: The carrying amount is a reasonable estimate of fair value.

Securities investments: Fair value is estimated using quoted market prices wherever applicable. For those where no market price is available, the carrying amounts in the books are estimated to be their fair values.

Loans: The major portion of the loans is short-term and has interest rates that are subject to fluctuation at short notice in accordance with prevailing interest rates in the market. Management believes that the risk factors embedded in the entry value of interest rates and subsequent rate changes along with the related allowances for uncollectibility and assessment of risks associated with the loan book result in a fair valuation of loans.

Deposits: Estimated fair value of demand deposits, saving deposits and interbank deposits is the amount payable on demand at the reporting date.

Borrowings: Borrowings have interest rates that are fixed on an entry value basis but may be subject to fluctuation in accordance with prevailing interest rates in the market. Interest-bearing borrowings and overdrafts are recorded at the proceeds received. Interests on borrowings are accounted for on an accrual basis and are added to the carrying amount of instruments to the extent they are not settled in the period in which they arise.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.11 Derivative financial instruments:

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates, as estimated based on the available quoted market rates prevailing at the reporting date. All unrealized gains and losses on these instruments are included in the statement of income. Unrealized gains and losses on these instruments are not deductible for tax purposes.

The Group's derivative transactions are mainly in the form of forwards and currency swaps.

The Group does not have any derivatives held for hedging purposes.

3.12 Investments Under Resale or Repurchase Transactions:

Purchases or sales of investments under agreements of resale or repurchase are short term and entirely involve debt (primarily government) securities. Sales of investments under agreements of repurchase ("Repos") are retained in the balance sheet and corresponding counterparty commitment is included separately under liabilities. The income and expenses on repo transactions are separately recognized as interest income accrued in accordance with its classification as financial assets at fair value through profit or loss, investments held to maturity or investments available for sale, and interest expense is accounted for on an accrual basis over the period of the transactions.

Purchases of securities under agreements of resale ("reverse repos") are separately disclosed under assets as "funds lent under securities resale agreements" and interest income on such transactions is accounted for on an accrual basis over the period of transactions.

3.13 Loans and Allowance for Impairment Losses:

Loans are financial instruments extended by the Bank and accounted for at amortized cost using the effective interest rate method, except for certain loans wherever straight line accrual basis does not materially differ from amortized cost method.

Based on its evaluation of the current status of the loans granted, the Bank provides allowance for impairment losses on loans which it considers are adequate to cover estimated uncollectible amounts in the loan portfolio and losses under guarantees and commitments. The estimates are reviewed periodically and, as adjustments become necessary, they are reflected in the statement of income in the periods in which they become known.

The Bank classifies any loan which is not adequately collateralized or the management believing borrowers lost their creditworthiness into overdue loans. The Bank ceases to recognize income on overdue loans and receivables.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.14 Leasing - the Group as lessor:

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

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. Provision for doubtful finance lease receivables and other receivables are recognized as an expense and written off against the profit for the year. Provision for receivables under follow-up is allocated assessing the Group's loan portfolio, quality and risk and considering the economic conditions and other factors including the related legislation against the potential losses that may be resulted from the current finance lease receivables.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

3.15 Leasing - the Group as Lessee:

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

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

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

3.16 Factoring Receivables:

Factoring receivables are recognized at original factored receivable amount, which represents the fair value of consideration given, and subsequently remeasured at amortized cost less reserve for impairment. Provision for impaired factoring receivables are recognized as an expense and written off against the profit for the year. Provision for impaired factoring receivables is allocated assessing the Group's loan portfolio, quality and risk and considering the economic conditions and other factors including the related legislation against the potential losses that may be resulted from the current factoring receivables.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.17 Property and equipment:

Property and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated and carried at cost less accumulated impairment.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognized impairment loss. Cost includes professional fees. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost or valuation of assets, other than land and properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

3.18 Intangible assets:

Intangible assets of the Group consist of computer software. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives.

3.19 Impairment of non-financial assets:

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

3.20 Borrowing costs:

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

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.21 Provisions:

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

3.22 Retirement pay provision:

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Group. Such payments are considered as being part of defined retirement benefit plan as per International Accounting Standard No. 19 (revised) "Employee Benefits" ("IAS 19").

The retirement benefit obligation recognized in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses.

3.23 Taxation and deferred income taxes:

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.

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.23 Taxation and deferred income taxes (cont'd):

Deferred tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which is used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognized directly in equity, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or determining the excess of the acquirer's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities over cost.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.24 Business and Geographical Segments:

Business Segments

For management purposes, the Group is currently organized into the operating divisions of banking, securities brokerage, leasing and factoring. These divisions are the basis on which the Group reports its primary segment information.

Geographical Segments

The Group's operations are mainly located in Turkey.

3.25 Use of Estimates:

The preparation of the 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 balance sheet, 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.

Key sources of estimation uncertainty

Allowances for credit losses

Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3.8.

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk Function.

Determining fair values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3.8. For financial instruments that require varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also "Valuation of financial instruments" below.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.25 Use of Estimates (cont'd):

Critical accounting judgements in applying the Group's accounting policies

Critical accounting judgements made in applying the Group's accounting policies include:

Valuation of financial instruments

The Group's accounting policy on fair value measurements is discussed in accounting policy 3.8.

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 and liabilities as "trading", the Group has determined that it meets the description of held for trading investments and liabilities set out in accounting policy 3.8.
- In classifying financial assets as "available for sale", the Group has determined that it meets the description of available for sale investments set out in accounting policy 3.8.

Details of the Group's classification of financial assets and liabilities are given in note 30.

3.26 Offsetting:

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

3.27 Client Assets:

Client assets, except for deposits accepted and other cash proceeds obtained, held under custody, in fiduciary, agency or intermediary capacity are not recognized in the accompanying consolidated financial statements as customers have ownership of such assets.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

4. SEGMENTAL INFORMATION

Business segments

	<u>1 January-31 December 2012</u>					
	Banking <u>TL'000</u>	Brokerage <u>TL'000</u>	Leasing <u>TL'000</u>	Factoring <u>TL'000</u>	Eliminations and Adjustments <u>TL'000</u>	Total <u>TL'000</u>
Interest income	60,200	2,167	959	6,514	(315)	69,525
Interest expenses	(32,845)	(10)	(17)	(2,863)	315	(35,420)
Net interest income	27,355	2,157	942	3,651	-	34,105
Net fee and commission income	1,838	13,155	(8)	(37)	-	14,948
Net foreign currency gains / (losses)	(6,734)	-	(124)	18	-	(6,840)
Gain / (loss) on derivative financial instruments	9,324	-	325	-	-	9,649
Net securities trading gains / (losses)	537	3	-	-	-	540
Net trading income	3,127	3	201	18	-	3,349
Impairment losses	(3,455)	-	-	(1,176)	-	(4,631)
Net operating income after impairment	28,865	15,315	1,135	2,456	-	47,771
Other operating income	7,971	-	38	113	(1,809)	6,313
Other operating expenses	(34,935)	(14,975)	(491)	(2,488)	-	(52,889)
Income before tax	1,901	340	682	81	(1,809)	1,195
Taxation	(12)	(153)	(141)	(32)	-	(338)
Net income	1,889	187	541	49	(1,809)	857

	<u>31 December 2012</u>					
<u>BALANCE SHEET</u>	Banking <u>TL'000</u>	Brokerage <u>TL'000</u>	Leasing <u>TL'000</u>	Factoring <u>TL'000</u>	Eliminations and Adjustments <u>TL'000</u>	Total <u>TL'000</u>
Total assets	953,624	38,695	11,094	27,876	(48,239)	983,050
Liabilities	786,980	25,410	356	19,911	(17,205)	815,452

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

4. SEGMENTAL INFORMATION (cont'd)

Business segments (cont'd)

	<u>1 January-31 December 2011</u>					
	Banking	Brokerage	Leasing	Factoring	Eliminations and Adjustments	Total
	<u>TL'000</u>	<u>TL'000</u>	<u>TL'000</u>	<u>TL'000</u>	<u>TL'000</u>	<u>TL'000</u>
Interest income	51,285	2,116	1,173	7,060	(996)	60,638
Interest expenses	(27,701)	(3)	(118)	(3,819)	996	(30,645)
Net interest income	23,584	2,113	1,055	3,241	-	29,993
Net fee and commission income	1,634	13,217	(5)	244	-	15,090
Net foreign currency gains	9,258	-	203	17	-	9,478
Gain / (loss) on derivative financial instruments	(6,789)	-	(135)	-	-	(6,924)
Net securities trading gains	1,419	15	-	-	-	1,434
Net trading income	3,888	15	68	17	-	3,988
Impairment losses	(2,431)	-	-	(191)	-	(2,622)
Net operating income after impairment	26,675	15,345	1,118	3,311	-	46,449
Other operating income	4,284	60	8	47	(2,029)	2,370
Other operating expenses	(30,416)	(13,147)	(692)	(2,685)	4	(46,936)
Income before tax	543	2,258	434	673	(2,025)	1,883
Taxation	279	(435)	37	(98)	-	(217)
Net income	822	1,823	471	575	(2,025)	1,666

	<u>31 December 2011</u>					
<u>BALANCE SHEET</u>	Banking	Brokerage	Leasing	Factoring	Eliminations and Adjustments	Total
	<u>TL'000</u>	<u>TL'000</u>	<u>TL'000</u>	<u>TL'000</u>	<u>TL'000</u>	<u>TL'000</u>
Total assets	894,404	45,337	12,362	40,631	(45,560)	947,174
Liabilities	740,465	30,745	2,165	32,400	(14,526)	791,249

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

4. SEGMENTAL INFORMATION (cont'd)

Geographical segments

The Group's geographical segments are based on the location of the Group's customers. The Group's activities are conducted predominantly in Turkey. The areas of operation include all the primary business segments.

	Assets	Liabilities	Non-Cash Loans	Net Income
	<u>TL'000</u>	<u>TL'000</u>	<u>TL'000</u>	<u>TL'000</u>
Current Year				
Domestic	959,850	787,053	60,662	857
European Union Countries	16,936	16,873	-	-
OECD Countries (*)	13	1,377	23,013	-
Off-Shore Banking Regions	5,589	28	682	-
USA, Canada	639	1,080	-	-
Other Countries	23	9,041	-	-
Total	<u>983,050</u>	<u>815,452</u>	<u>84,357</u>	<u>857</u>
Prior Year				
Domestic	926,912	584,904	92,043	1,666
European Union Countries	6,704	203,668	-	-
OECD Countries (*)	781	1,593	21,415	-
Off-Shore Banking Regions	5,907	-	427	-
USA, Canada	972	736	-	-
Other Countries	5,898	348	-	-
Total	<u>947,174</u>	<u>791,249</u>	<u>113,885</u>	<u>1,666</u>

(*) OECD countries except USA and Canada.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

5. CASH AND CASH EQUIVALENTS

	31 December 2012 <u>TL'000</u>	31 December 2011 <u>TL'000</u>
Cash balances – Turkish Lira (“TL”)	3,294	1,937
Cash balances – Foreign currencies (“FC”)	5,718	4,934
	<u>9,012</u>	<u>6,871</u>

6. BALANCES WITH THE CENTRAL BANK

a) Balances with the Central Bank

	31 December 2012 <u>TL'000</u>	31 December 2011 <u>TL'000</u>
Demand deposits – Turkish Lira (“TL”)	6,525	24,402
Demand deposits – Foreign Currency (“FC”)	29,205	6,250
	<u>35,730</u>	<u>30,652</u>

b) Reserve Deposits at the Central Bank

	31 December 2012 <u>TL'000</u>	31 December 2011 <u>TL'000</u>
Reserves – Turkish Lira (“TL”)	-	-
Reserves – Foreign Currency (“FC”)	16,805	24,692
	<u>16,805</u>	<u>24,692</u>

According to the regulations of Central Bank of the Republic of Turkey (“Central Bank”), banks are required to reserve a portion of certain liability accounts as specified in the related decrees. Such mandatory reserves are not available for use in the Bank’s day to day operations.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

7. BALANCES WITH BANKS

	31 December 2012	31 December 2011
	TL'000	TL'000
<u>Domestic Banks</u>		
Demand deposits – Turkish Lira	833	237
Demand deposits – Foreign Currency	6,498	15
Time deposits – Turkish Lira	295,464	175,975
Time deposits – Foreign Currency	52,925	223,878
	<u>355,720</u>	<u>400,105</u>
<u>Banks Abroad</u>		
Demand deposits – Turkish Lira	-	1
Demand deposits – Foreign Currency	7,961	5,116
	<u>7,961</u>	<u>5,117</u>
	<u>363,681</u>	<u>405,222</u>

The time deposits in Turkish Lira above mature within one month and earn interest at rates ranging from 6.00% to 7.45% (31 December 2011: from 7.50% to 10.50%) per annum. The time deposits in foreign currency above mature within one month and earn interest at rates ranging from 0.05% to 2.25% (31 December 2011: from 0.12% to 4.10%) per annum.

8. MONEY MARKET PLACEMENTS / INTERBANK MONEY MARKET BORROWINGS

	31 December 2012	31 December 2011
	TL'000	TL'000
Funds lent under reverse repurchase agreements	4,901	17,010
Interbank placements	1,764	33,308
	<u>6,665</u>	<u>50,318</u>

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31 December 2012	31 December 2011
	TL'000	TL'000
Derivative financial instruments (Note 27)	<u>144</u>	<u>571</u>

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

10. LOANS AND RECEIVABLES

	31 December 2012 TL'000	31 December 2011 TL'000
Short term loans	272,114	148,594
Medium and long term loans	123,351	110,538
Impaired loans	7,833	14,565
	<u>403,298</u>	<u>273,697</u>
Less: Specific allowance for impairment losses on loans	(3,847)	(8,101)
Less: Portfolio provision for loan losses	(3,818)	(2,109)
	<u>(7,665)</u>	<u>(10,210)</u>
	<u>395,633</u>	<u>263,487</u>

Loans can be analyzed by customer groups and currency as follows:

	31 December 2012 TL'000	31 December 2011 TL'000
<u>Customer Groups:</u>		
Corporate customers	286,664	165,700
Small business	75,431	54,713
Consumer loans	4,430	4,635
Credit cards	2,067	1,673
Other	19,735	9,871
Overdue loans	14,971	37,105
Less: Allowance for impairment losses on loans	(7,665)	(10,210)
	<u>395,633</u>	<u>263,487</u>

Interest rates charged for the above loan portfolio vary between 2.34%-48% per annum for Turkish Lira loans. For foreign currency loans the interest rates vary between 2.34%-8.5% for US Dollar loans and 7%-8.5% for Euro loans respectively (31 December 2011: 2.43%-37% for Turkish Lira loans, 2.88%-8.5% for US Dollar loans and 2.43%-9.5% for Euro loans respectively).

	31 December 2012 TL'000	31 December 2011 TL'000
<u>Currency:</u>		
Turkish Lira (TL)	305,847	153,957
US Dollar	67,817	95,777
Euro	21,189	12,933
Other currencies	780	820
	<u>395,633</u>	<u>263,487</u>

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

10. LOANS AND RECEIVABLES (cont'd)

<u>31 December 2012</u>	<u>Corporate</u>	<u>Small Business</u>	<u>Consumer</u>	<u>Other</u>	<u>Total</u>
Neither past due nor impaired	286,664	75,431	4,430	21,802	388,327
Past due not impaired	1,237	2,842	65	2,994	7,138
Individually impaired	748	6,290	795	-	7,833
Total gross	288,649	84,563	5,290	24,796	403,298
Less: allowance for individually impaired loans	(958)	(1,921)	(459)	(509)	(3,847)
Less: allowance for collectively impaired loans (*)	-	-	-	(3,818)	(3,818)
Total allowance for impairment	(958)	(1,921)	(459)	(4,327)	(7,665)
Total net	287,691	82,642	4,831	20,469	395,633
<u>31 December 2011</u>	<u>Corporate</u>	<u>Small Business</u>	<u>Consumer</u>	<u>Other</u>	<u>Total</u>
Neither past due nor impaired	165,700	54,713	4,635	11,544	236,592
Past due not impaired	7,769	13,043	1,519	209	22,540
Individually impaired	2,548	9,221	679	2,117	14,565
Total gross	176,017	76,977	6,833	13,870	273,697
Less: allowance for individually impaired loans	(5,120)	(2,125)	(347)	(509)	(8,101)
Less: allowance for collectively impaired loans (*)	-	-	-	(2,109)	(2,109)
Total allowance for impairment	(5,120)	(2,125)	(347)	(2,618)	(10,210)
Total net	170,897	74,852	6,486	11,252	263,487

(*) Portfolio provision for loan losses is not distributed among the customer groups but presented in "Other" column.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

10. LOANS AND RECEIVABLES (cont'd)

Movement in allowance for the impairment losses on loans are as follows:

	2012	2011
	<u>TL'000</u>	<u>TL'000</u>
Specific Allowance for Individual Impairment Losses:		
As at 1 January	8,101	8,143
Charge for the year	2,611	1,048
Allowance released	(3,783)	(1,090)
Amounts write-off	(3,082)	-
As at 31 December	<u>3,847</u>	<u>8,101</u>
Portfolio Provisions for Loan Losses:		
As at 1 January	2,109	913
Charge for the year	<u>1,709</u>	<u>1,196</u>
As at 31 December	<u>3,818</u>	<u>2,109</u>

A reconciliation of the allowance for individual impairment losses on loans by customer groups is as follows:

<u>31 December 2012 (TL'000)</u>	<u>Corporate</u>	<u>Small Business</u>	<u>Consumer</u>	<u>Other</u>	<u>Total</u>
At January 1	5,120	2,125	347	509	8,101
Charge for the year	1,635	823	153	-	2,611
Recoveries	(2,715)	(1,027)	(41)	-	(3,783)
Amounts written-off	(3,082)	-	-	-	(3,082)
At December 31	<u>958</u>	<u>1,921</u>	<u>459</u>	<u>509</u>	<u>3,847</u>
<u>31 December 2011 (TL'000)</u>	<u>Corporate</u>	<u>Small Business</u>	<u>Consumer</u>	<u>Other</u>	<u>Total</u>
At January 1	4,974	2,321	339	509	8,143
Charge for the year	480	508	60	-	1,048
Recoveries	(334)	(704)	(52)	-	(1,090)
At December 31	<u>5,120</u>	<u>2,125</u>	<u>347</u>	<u>509</u>	<u>8,101</u>

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

10. LOANS AND RECEIVABLES (cont'd)

The total value of collaterals that the Group held for impaired loans as at 31 December 2012 was TL 10,564 Thousand (31 December 2011: TL 8,900 Thousand). The total value of collaterals that the Group held for loans that are not impaired as at 31 December 2012 was TL 276,870 Thousand (31 December 2011: TL 80,610 Thousand).

11. FINANCE LEASE RECEIVABLES

	2012 TL'000	2011 TL'000
Invoiced finance lease receivables	85	288
Uninvoiced finance lease receivables	2,592	6,378
Less: Unearned interest income	(313)	(947)
Net investment in finance leases	2,364	5,719
Impaired lease receivables	4,860	4,484
Less: Reserve for impairment	(754)	(764)
Minimum lease payments receivable, net	6,470	9,439

The allocation of finance lease receivables according to their maturities, excluding net of impaired lease receivables, is as follows;

	Finance lease receivables (Gross) TL'000	Unearned Interest TL'000	Finance lease receivables (Net) TL'000
<u>31 December 2012</u>			
2013	1,764	(200)	1,564
2014	586	(85)	501
2015 and later	226	(22)	204
2016 and later	101	(6)	95
	2,677	(313)	2,364
<u>31 December 2011</u>			
2012	3,690	(642)	3,048
2013	2,123	(258)	1,865
2014	767	(45)	722
2015 and later	86	(2)	84
	6,666	(947)	5,719

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

11. FINANCE LEASE RECEIVABLES (cont'd)

The aging of the finance lease receivables that are past due but not impaired is as follows:

	31 December 2012 TL'000	31 December 2011 TL'000
Up to 30 Days	-	11
30 – 60 Days	19	3
60 – 90 Days	-	146
90 – 150 Days	-	12
Past due portion	19	172
Not due portion	139	1.064
Total	158	1,236

The movements of allowance for impaired finance lease receivables for the years ended 31 December 2012 and 31 December 2011 are as follows:

	2012 TL'000	2011 TL'000
Opening balance	764	763
Reserve for the year	-	10
Recoveries	(10)	(9)
Ending balance	754	764

The distribution of lease receivables according to foreign currency types is as follows:

31 December 2012

Foreign Currency Type	Principal(Net) TL'000	Unearned Interest TL'000
US Dollar	4,382	158
Euro	670	11
TL	1,418	144
	6,470	313

31 December 2011

Foreign Currency Type	Principal(Net) TL'000	Unearned Interest TL'000
US Dollar	4,965	323
Euro	889	153
TL	3,585	471
	9,439	947

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

11. FINANCE LEASE RECEIVABLES (cont'd)

As at 31 December 2012 the Group's collaterals obtained for the lease receivables under follow up amounting to TL 56 Thousand. As of 31 December 2012 the Group has no collateral obtained for the lease receivables under follow up. The Group has collaterals obtained for the receivables that are past due but not impaired amounting to TL 934 Thousand (31 December 2011: TL 5,719 Thousand).

The Group revises the estimated fair values of the collaterals taken against the receivables under follow-up based on the current market conditions and considers such revised collateral amounts when determining impairment.

As at 31 December 2012, the Group obtained guarantees (including mortgage, bank letter of guarantees, and others) from its customers amounting to TL 4,905 Thousand (31 December 2011: TL 7,870) against its lease receivables which are not under follow up.

12. FACTORING RECEIVABLES

		<u>31 December 2012</u>	
	<u>Effective interest rate</u>	<u>Turkish Lira</u>	<u>Foreign Currency</u>
Factoring receivables	10%-43%	24,329	-
Impaired factoring receivables		2,592	23
Less: Reserve for impairment		(2,029)	(23)
Less: Deferred income		(786)	-
Net factoring receivables		<u>24,106</u>	<u>-</u>
		<u>31 December 2011</u>	
	<u>Effective interest rate</u>	<u>Turkish Lira</u>	<u>Foreign Currency</u>
Factoring receivables	13%-27%	40,479	-
Impaired factoring receivables		1,700	23
Less: Reserve for impairment		(854)	(23)
Less: Deferred income		(1,303)	-
Net factoring receivables		<u>40,022</u>	<u>-</u>

All factoring receivables have fixed interest rates.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

12. FACTORING RECEIVABLES (cont'd)

Movements in the reserve for impairment:

	1 January – 31 December 2012 TL'000	1 January – 31 December 2011 TL'000
Reserve at beginning of year	877	721
Provision for impairment	1,175	191
Recoveries	-	(35)
Reserve at end of the year	<u>2,052</u>	<u>877</u>

As at 31 December 2012 and 31 December 2011, aging of performing factoring receivables are as follows:

	31 December 2012 TL'000	31 December 2011 TL'000
Up to 30 days	945	6,892
Between 30 – 90 days	8,948	18,285
Between 90 – 180 days	11,504	11,681
Between 180 – 360 days	2,146	2,318
More than 1 year	-	-
	<u>23,543</u>	<u>39,176</u>

As at 31 December 2012 and 31 December 2011, aging of factoring receivables past due but not impaired are as follows:

	31 December 2012 TL'000	31 December 2011 TL'000
Up to 30 days	29	264
Between 30 – 60 days	4	5
Between 60 – 90 days	44	-
	<u>77</u>	<u>269</u>

The total value of collaterals that the Group held for past due but not impaired factoring receivables as at 31 December 2012 is TL 77 Thousand (31 December 2011: TL 269 Thousand).

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

13. AVAILABLE FOR SALE FINANCIAL ASSETS

	31 December 2012 <u>TL'000</u>	31 December 2011 <u>TL'000</u>
Turkish Government bonds & Treasury bills denominated in TL	72,975	72,363
Turkish Treasury bills denominated in foreign currencies	-	1,372
Eurobonds	-	5,807
	<u>72,975</u>	<u>79,542</u>

As of 31 December 2012, the government bonds and treasury bills with fair value of TL 53,066 thousand (2011: TL 29,691 thousand) and nominal value of TL 50,958 thousand (2011: TL 29,243 thousand) were sold to the Group's customers under repurchase agreements. The funds collected from those repo transactions were TL 55,558 thousand (2011: TL 45,693 thousand) and they are included in obligations under repurchase agreements.

The blocked securities kept by the Central Bank and İMKB (İstanbul Stock Exchange) Takas ve Saklama Bankası A.Ş. for the purposes of trading guarantee on interbank, bond, repurchase and reverse repurchase markets and custody services as at 31 December 2012 and 31 December 2011 are as follows:

	<u>31 December 2012</u>		<u>31 December 2011</u>	
	Nominal Value <u>TL'000</u>	Carrying Value <u>TL'000</u>	Nominal Value <u>TL'000</u>	Carrying Value <u>TL'000</u>
Government bonds & Treasury bills	<u>10,381</u>	<u>11,322</u>	<u>15,650</u>	<u>15,448</u>
	<u>10,381</u>	<u>11,322</u>	<u>15,650</u>	<u>15,448</u>

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

14. PROPERTY AND EQUIPMENT

<u>Acquisition cost</u>	<u>Buildings</u> <u>TL'000</u>	<u>Motor</u> <u>vehicles</u> <u>TL'000</u>	<u>Machinery</u> <u>and</u> <u>equipment</u> <u>TL'000</u>	<u>Furniture</u> <u>and</u> <u>fixtures</u> <u>TL'000</u>	<u>Other</u> <u>fixed</u> <u>assets</u> <u>TL'000</u>	<u>Leasehold</u> <u>improvements</u> <u>TL'0000</u>	<u>Total</u> <u>TL'000</u>
Opening balance, 1 January 2012	13,537	329	3,302	1,822	1,437	4,847	25,274
Additions	-	-	-	283	73	390	746
Disposals	-	(234)	-	(79)	-	-	(313)
Closing balance, 31 December 2012	13,537	95	3,302	2,026	1,510	5,237	25,707
<u>Accumulated depreciation</u>							
Opening balance, 1 January 2012	(6,089)	(301)	(2,639)	(1,462)	(952)	(3,528)	(14,971)
Charge for the year	(277)	(4)	(259)	(182)	(153)	(705)	(1,580)
Disposals	-	234	-	66	-	-	300
Closing balance, 31 December 2012	(6,366)	(71)	(2,898)	(1,578)	(1,105)	(4,233)	(16,251)
Net book value as of 31 December 2012	7,171	24	404	448	405	1,004	9,456

Premises and equipment are depreciated on a straight-line basis using the following main rates which write off the assets over their expected useful lives:

Buildings	2%
Motor vehicles	20%
Machinery and equipment	20%
Furniture and fixtures	20%
Other	20%

Leasehold improvements are depreciated based on the shorter of the rental period or useful life of the assets.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

14. PROPERTY AND EQUIPMENT (cont'd)

	Buildings TL'000	Motor vehicles TL'000	Machinery and equipment TL'000	Furniture and fixtures TL'000	Other fixed assets TL'000	Leasehold improvements TL'000	Total TL'000
<u>Acquisition cost</u>							
Opening balance, 1 January 2011	13,537	329	3,295	1,779	1,398	4,322	24,660
Additions	-	-	7	81	60	525	673
Disposals	-	-	-	(38)	(21)	-	(59)
Closing balance, 31 December 2011	13,537	329	3,302	1,822	1,437	4,847	25,274
<u>Accumulated depreciation</u>							
Opening balance, 1 January 2011	(5,812)	(293)	(2,237)	(1,321)	(811)	(2,813)	(13,287)
Charge for the year	(277)	(8)	(402)	(177)	(162)	(715)	(1,741)
Disposals	-	-	-	36	21	-	57
Closing balance, 31 December 2011	(6,089)	(301)	(2,639)	(1,462)	(952)	(3,528)	(14,971)
Net book value as of 31 December 2011	7,448	28	663	360	485	1,319	10,303

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

15. INTANGIBLE ASSETS

	Software TL'000	Total TL'000
<u>Acquisition cost</u>		
Opening balance, 1 January 2012	4,302	4,302
Additions	318	318
Closing balance, 31 December 2012	<u>4,620</u>	<u>4,620</u>
<u>Accumulated amortization</u>		
Opening balance, 1 January 2012	(3,221)	(3,221)
Charge for the year	(463)	(463)
Closing balance, 31 December 2012	<u>(3,684)</u>	<u>(3,684)</u>
Net book value as of 31 December 2012	<u>936</u>	<u>936</u>
	Software TL'000	Total TL'000
<u>Acquisition cost</u>		
Opening balance, 1 January 2011	3,524	3,524
Additions	778	778
Closing balance, 31 December 2011	<u>4,302</u>	<u>4,302</u>
<u>Accumulated amortization</u>		
Opening balance, 1 January 2011	(2,825)	(2,825)
Charge for the year	(396)	(396)
Closing balance, 31 December 2011	<u>(3,221)</u>	<u>(3,221)</u>
Net book value as of 31 December 2011	<u>1,081</u>	<u>1,081</u>

Estimated useful lives for intangible assets vary between three to twenty years.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

16. OTHER ASSETS

	31 December 2012 TL'000	31 December 2011 TL'000
Cash guarantees given to Turkish Derivative Exchange Market	8,484	9,635
Clearance account	20,425	9,679
Prepaid taxes	183	596
Other cash guarantees given	783	514
Prepaid rent expenses	310	239
Foreclosed assets	1,095	74
Receivables from Forex transactions	6,503	-
Other	2,036	2,544
	<u>39,819</u>	<u>23,281</u>

17. DEPOSITS

	Time TL'000	Demand TL'000	Total TL'000
<u>31 December 2012</u>			
<u>TL Deposit</u>			
Savings deposits	163,167	5,392	168,559
Public, commercial and other enterprises	36,597	9,714	46,311
Banks	<u>165,422</u>	<u>983</u>	<u>166,405</u>
	<u>365,186</u>	<u>16,089</u>	<u>381,275</u>
<u>FC deposits</u>			
Savings deposits	174,239	23,713	197,952
Public, commercial and other enterprises	-	2,701	2,701
Banks	<u>16,285</u>	<u>1,671</u>	<u>17,956</u>
	<u>190,524</u>	<u>28,085</u>	<u>218,609</u>
	<u>555,710</u>	<u>44,174</u>	<u>599,884</u>

Average interest rate for the deposits is 7.44% per annum for Turkish Lira deposits. For foreign currency deposits the average interest rate is 2.26% for US Dollar deposits and 2.32% for Euro deposits (31 December 2011: 9.26% for Turkish Lira deposits, 2.11% for US Dollar deposits and 1.56% for Euro deposits).

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

17. DEPOSITS (cont'd)

<u>31 December 2011</u>	<u>Time TL'000</u>	<u>Demand TL'000</u>	<u>Total TL'000</u>
<u>TL Deposit</u>			
Savings deposits	174,827	6,375	181,202
Public, commercial and other enterprises	37,988	5,930	43,918
Banks	16,757	630	17,387
	<u>229,572</u>	<u>12,935</u>	<u>242,507</u>
<u>FC deposits</u>			
Savings deposits	175,340	12,338	187,678
Public, commercial and other enterprises	-	-	-
Banks	86,080	19,592	105,672
	<u>261,420</u>	<u>31,930</u>	<u>293,350</u>
	<u>490,992</u>	<u>44,865</u>	<u>535,857</u>

18. OBLIGATIONS UNDER REPURCHASE AGREEMENTS

	<u>31 December 2012</u>		
	<u>Carrying Value of Underlying Securities TL'000</u>	<u>Carrying Value of Corresponding Liability TL'000</u>	<u>31 December 2012 Repurchase Value TL'000</u>
Funds lent under reverse repurchase agreements	4,656	4,656	4,656
Available for sale investments	53,066	50,902	50,923
	<u>57,722</u>	<u>55,558</u>	<u>55,579</u>
	<u>31 December 2011</u>		
	<u>Carrying Value of Underlying Securities TL'000</u>	<u>Carrying Value of Corresponding Liability TL'000</u>	<u>31 December 2011 Repurchase Value TL'000</u>
Funds lent under reverse repurchase agreements	16,687	16,343	16,347
Available for sale investments	29,691	29,350	29,364
	<u>46,378</u>	<u>45,693</u>	<u>45,711</u>

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

19. BORROWINGS

	31 December 2012 TL'000	31 December 2011 TL'000
<u>Borrowings from abroad:</u>		
Foreign banks – TL - short-term	22,921	5,052
Foreign banks – FC – short-term	66,728	141,972
	<u>89,649</u>	<u>147,024</u>
<u>Local bank borrowings:</u>		
Borrowings from local banks – TL –short term	5,554	31,523
Borrowings from local banks – FC – short term	-	-
	<u>5,554</u>	<u>31,523</u>
	<u>95,203</u>	<u>178,547</u>

The interest rates for TL borrowings are between 4.5% and 8.25% (31 December 2011: 16.5% and 15.75%) while interest rates for foreign currency borrowings are between 0.20% and 1.8% (31 December 2011: 0.02% and 4.75%).

20. TAXATION

Corporate Tax

The Group is subject to Turkish corporate taxes. Provision is made in the accompanying financial statements for the estimated charge based on the Group's results for the years and periods. 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.

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

The effective rate of tax in 2012 is 20% (2011: 20%) for the Group.

In Turkey, advance tax returns are filed on a quarterly basis. The advance corporate income tax rate in 2012 is 20% (2011: 20%).

Losses are allowed to be carried 5 years maximum to be deducted from the taxable profit of the following years. Tax carry back is not allowed.

In Turkey, 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.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

20. TAXATION (cont'd)

Corporate Tax (cont'd)

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 is 10% starting from 24 April 2003. This rate was changed to 15% commencing from 23 July 2006. Undistributed dividends incorporated in share capital are not subject to income withholding taxes. Withholding tax at the rate of 19.8% is still applied to investment allowances relating to investment incentive certificates obtained prior to 24 April 2003. Subsequent to this date, the investments without investment incentive certificates do not qualify for tax allowance.

In the accompanying consolidated financial statements corporate tax and deferred tax asset/liability are comprised of the following:

a) Balance Sheet: Corporate tax

	31 December 2012 TL'000	31 December 2011 TL'000
Corporate tax provision	1,085	740
Prepaid taxes	(296)	(719)
Net	<u>789</u>	<u>21</u>

b) Income Statement

	1 January- 31 December 2012 TL'000	1 January- 31 December 2011 TL'000
Current income tax charge	1,085	740
Deferred tax benefit	(747)	(523)
	<u>338</u>	<u>217</u>

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

20. TAXATION (cont'd)

c) Total charge for the year can be reconciled to the accounting profit as follows:

	1 January- 31 December 2012 TL'000	1 January- 31 December 2011 TL'000
Profit before income tax	1,195	1,883
Tax at the domestic tax rate of 20% (2011: 20%)	239	377
Other, net (including tax effects of expenses that are not deductible in determining taxable profit)	99	(160)
	<u>338</u>	<u>217</u>

Deferred Income Tax

Temporary differences and corresponding deferred taxes are as follows:

	<u>31 December 2012</u> TL'000		<u>31 December 2011</u> TL'000	
<u>Deferred tax assets</u>	Timing Differences	Deferred Tax Asset / (Liability)	Timing Differences	Deferred Tax Asset / (Liability)
Useful life difference on fixed assets	1,183	237	512	102
Employee termination benefits and unused vacation pay liability	1,267	253	926	185
Portfolio provisions for loan losses	3,818	764	2,109	422
Available for sale financial assets valuation difference	-	-	1,819	364
Loan loss provision	974	195	407	81
Accumulated tax losses	-	-	1,995	399
Finance lease income accrual	(15)	(3)	(49)	(10)
Deferred factoring interest income	671	134	1,303	261
Derivative financial instruments	191	38	(556)	(111)
	<u>8,089</u>	<u>1,618</u>	<u>8,466</u>	<u>1,693</u>

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

20. TAXATION (cont'd)

Deferred Income Tax (cont'd)

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

	31 December 2012 TL'000	31 December 2011 TL'000
Deferred tax assets, net at 1 January	1,693	234
Deferred tax recognized in the profit or loss	747	523
Deferred income tax recognized in other comprehensive income	(822)	936
	<u>1,618</u>	<u>1,693</u>

21. PROVISIONS

	31 December 2012 TL'000	31 December 2011 TL'000
<u>Employee benefits</u>		
Provision for retirement pay	773	618
Provision for unused vacation	494	309
Provision for personnel bonus	70	103
	<u>1,337</u>	<u>1,030</u>
<u>Other provisions</u>		
Provisions for the non-cash loans uncompensated	823	822
Other provisions	535	287
	<u>1,358</u>	<u>1,109</u>
Total Provisions	<u>2,695</u>	<u>2,139</u>

The movement of unused vacation accrual is as follows:

	2012 TL'000	2011 TL'000
Opening balance	309	300
Charge for the year	185	9
Ending balance	<u>494</u>	<u>309</u>

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

21. PROVISIONS (cont'd)

The movement of provision for personnel bonus is as follows:

	2012	2011
	TL'000	TL'000
Opening balance	103	125
Charge for the year	544	925
Bonus payments	(577)	(947)
Ending balance	70	103

Provision for retirement pay

Under Turkish Labor Law, The Company is required to pay employment termination benefits to each employee who has qualified. Also, employees are required to be paid their retirement pay provisions who retired by gaining right to receive retirement pay provisions according to current 506 numbered Social Insurance Law's 6 March 1981 dated, 2422 numbered, 25 August 1999 dated and 4447 numbered with 60th article that has been changed. Some transition provisions related to the pre-retirement service term was excluded from the law since the related law was changed as of 23 May 2002.

The amount payable consists of one month's salary limited to a maximum of full TL 3,033.98 (31 December 2011: full TL 2,731.85) for each period of service at 31 December 2012.

The liability of employee termination benefits is not funded, as there is no funding requirement. The provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of employees. TMS 19 (Employee Benefits) requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. Accordingly, the following actuarial assumptions were used in the calculation of the total liability:

The principal assumption is that the maximum liability for each year of service will increase parallel 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 financial statements as of December 31, 2012, the provision has been calculated by estimating the present value of the future probable obligation of the Company arising from the retirement of the employees. The provisions at the respective balance sheet dates have been calculated assuming an annual inflation rate of 5.10% discount rate of 9.55% and real discount rate of approximately 4.23% (31 December 2011: annual inflation rate of 5.10%, discount rate of 10% and real discount rate of approximately 4.66%). Anticipated turnover rate is also included in the calculation.

Provision for retirement pay

	2012	2011
	TL'000	TL'000
At 1 January	618	500
Current service cost	485	411
Interest cost	17	21
Actuarial gain/loss	51	-
Retirement payments made	(398)	(314)
At 31 December	773	618

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

22. OTHER LIABILITIES

	31 December 2012 TL'000	31 December 2011 TL'000
Clearance account	21,391	10,129
Cash guarantees received from Turkish Derivative Exchange Market customers	8,564	9,675
Taxes and withholdings payable	1,637	2,012
Payables for Forex transactions	6,503	-
Other	8,186	7,161
	<u>46,281</u>	<u>28,977</u>

23. EQUITY

Share capital:

		31 December 2012 TL'000		31 December 2011 TL'000
<u>Shareholders</u>	<u>%</u>		<u>%</u>	
Özyol Holding A.Ş.	55.49	87,396	53.77	43,018
National Bank of Kuwait	38.10	60,000	40.00	32,000
Mehmet Tanju Özyol	5.33	8,400	5.17	4,135
Others	1.08	1,704	1.06	847
Nominal capital	<u>100.00</u>	<u>157,500</u>	<u>100.00</u>	<u>80,000</u>
Effect of inflation		6,868		25,900
		<u>164,368</u>		<u>105,900</u>

At the extraordinary general meeting of the Bank held on 25 May 2012, the following decisions have been made by the majority of votes:

- The Bank's paid in capital amounting to TL 80,000 will be increased to TL 175,000 and TL 70,000 of the increased amount will be covered by internal resources, including TL 37,448 of Share Premiums, TL 19,032 of Inflation Difference, TL 13,520 of Extraordinary Reserves and the remaining amount, which equals to TL 25,000, will be covered in cash; and
- TL 25,000 of cash of which is the committed part of the capital increase will include TL 7,500 of payment in June 2012 and April 2013 (totaling to TL 15,000) and TL 10,000 of payment in April 2014 with reserving the Bank's General Assembly's earlier payment call right.

Procedures both related to TL 70,000 of the increased capital amount which will be covered by internal resources and the first TL 7,500 of capital increase portion were completed upon the Banking Regulation and Supervision Agency's letters of approval issued as at 28 May 2012 and 10 August 2012, respectively and related accounting was recognized in the financial statements accordingly.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

23. EQUITY (cont'd)

Share capital (cont'd)

Since one of the Bank's main shareholder's, namely National Bank of Kuwait, did not participate in the capital increase, its interest in the Bank's paid in capital as of the balance sheet date is decreased to 38.10% (31 December 2011: 40.00%) and subsequent to the payment of TL 17,500 of the remaining capital increase commitment by the shareholders, its interest will decrease to 34.29%. Accordingly, as of the balance sheet date, other main shareholders', namely Özyol Holding A.Ş and Mehmet Tanju Özyol, interests in the paid in capital is increased to 55.49% (31 December 2011: 53.77%) and 5.33% (31 December 2011: 5.17%), respectively subsequent to their contribution to the capital increase. Following the full capital commitment payment, their interests will be increased to 58.92% and 5.66%, respectively.

After the capital increase, the Bank's paid in capital consists of 15,750,000,000 shares having a unit nominal value of 0.01 (in full TL) (31 December 2011: TL 0.01; 8,000,000,000 shares).

Movement in available for sale investments valuation reserve is as follows:

	2012 (TL'000)	2011 (TL'000)
At 1 January	(2,616)	1,122
Net unrealized gains on AFS	4,863	(1,490)
Realized (gains)/ losses on AFS recycled to income statement on disposal	(725)	(1,314)
Tax effect of net gains on AFS	(822)	(936)
At 31 December	<u>700</u>	<u>(2,616)</u>

Legal reserves:

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

24. OTHER OPERATING INCOME

	1 January- 31 December 2012 TL'000	1 January- 31 December 2011 TL'000
Reversal of prior years' accruals and provisions	4,005	902
Commissions on public offerings	151	112
Other	<u>2,157</u>	<u>1,356</u>
	<u>6,313</u>	<u>2,370</u>

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

25. OTHER OPERATING EXPENSES

	1 January- 31 December 2012	1 January- 31 December 2011
	<u>TL'000</u>	<u>TL'000</u>
Personnel expenses	26,147	24,754
Depreciation and amortization	2,043	2,137
Rent expenses	4,361	3,533
Repair and maintenance expenses	318	218
Marketing and sales expenses	160	445
Premiums paid for deposit insurance	428	457
Administrative expenses and other	19,432	15,392
	<u>52,889</u>	<u>46,936</u>

26. COMMITMENTS AND CONTINGENCIES

In the normal course of banking activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in these consolidated financial statements, including letters of guarantee. The management does not expect any material losses as a result of these transactions. The following is a summary of significant commitments and contingent liabilities:

	31 December 2012	31 December 2011
	<u>TL'000</u>	<u>TL'000</u>
Letters of guarantee		
Foreign currency	55,500	80,636
TL	23,964	31,152
Letters of credit	4,893	-
Other guarantees	-	2,097
Derivative financial instruments (Note : 27)	196,156	110,104
Other commitments	38,908	34,720
	<u>319,421</u>	<u>258,709</u>

The Bank has extended TL 10 Thousand of non-cash loans to related parties.

The Group provides custody service on behalf and account of its customers. The value of the assets held by the Group in agency or custodian capacities and financial assets under portfolio management amounted to TL 680,134 Thousand at 31 December 2012 (31 December 2011: TL 535,429 Thousand).

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

27. DERIVATIVE FINANCIAL INSTRUMENTS

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the balance sheet but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in foreign exchange rates and interest rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favorable or unfavorable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments held are set out in the following table.

	<u>31 December 2012</u>		<u>31 December 2011</u>	
	Assets TL'000	Liabilities TL'000	Assets TL'000	Liabilities TL'000
Currency swap contracts	4	335	204	15
Forward contracts	140	-	367	-
	<u>144</u>	<u>335</u>	<u>571</u>	<u>15</u>

	<u>31 December 2012</u>		<u>31 December 2011</u>	
	Notional amount in foreign currency	Notional amount in TL'000	Notional amount in foreign currency	Notional amount in TL'000
<u>Currency swap contracts:</u>				
<u>Currency purchases</u>				
US Dollar	23,166,162	41,296	10,100,000	19,255
EUR	21,999,830	51,737	-	-
TL	-	3,221	-	-
		<u>96,254</u>		<u>19,255</u>

	<u>31 December 2012</u>		<u>31 December 2011</u>	
	Notional amount in foreign currency	Notional amount in TL'000	Notional amount in foreign currency	Notional amount in TL'000
<u>Currency swap contracts:</u>				
<u>Currency sales</u>				
US Dollar	3,903,848	6,959	-	-
GBP	3,199,805	9,186	-	-
EUR	382,277	899	-	-
TL	-	79,563	-	19,130
		<u>96,607</u>		<u>19,130</u>

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

27. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

<u>Forward contracts:</u>	<u>31 December 2012</u>		<u>31 December 2011</u>	
	Notional amount in <u>foreign currency</u>	Notional amount in <u>TL'000</u>	Notional amount in <u>foreign currency</u>	Notional amount in <u>TL'000</u>
<u>Currency purchases</u>				
US Dollar	316,831	564	15,488,358	29,528
GBP	-	-	320,000	940
EUR	200,281	471	1,482,000	3,645
TL	-	615	-	1,918
		<u>1,650</u>		<u>36,031</u>
<u>Currency sales</u>				
US Dollar	263,660	470	1,286,150	2,452
GBP	-	-	-	-
EUR	500,064	1,176	350,000	861
TL	-	-	-	32,375
		<u>1,646</u>		<u>35,688</u>

28. DIVIDENDS

The Group did not pay any dividends during the current and the previous year.

29. RELATED PARTY TRANSACTIONS

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

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

	31 December 2012 <u>TL'000</u>	31 December 2011 <u>TL'000</u>
<u>Balances with related parties:</u>		
Deposits	8,870	8,882
Due from banks	1,058	964
Other funds borrowed	92,237	153,289

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

29. RELATED PARTY TRANSACTIONS (cont'd)

	1 January- 31 December 2012	1 January- 31 December 2011
<u>Transactions with related parties:</u>	<u>TL'000</u>	<u>TL'000</u>
Interest expense on funds borrowed and deposits	646	797
Gain/Loss on derivative financial instruments	-	(568)

The remuneration of members of Board of Directors and other members of key management; comprising mainly of salaries and other short-term benefits for the current period is TL 3,240 Thousand (2011: TL 2,688 Thousand).

30. FINANCIAL RISK MANAGEMENT

The Group has a Risk Management Group and is functionally independent of risk creating divisions. The Risk Management Group is responsible for identifying and analyzing the exposed risks, carrying risk policies and strategies, setting limits in activities to control these risks and finally measuring these risks. The Executive Committee is the party that submits risk strategies and policies to the Board of Directors.

The Value-at-Risk measurement is used in line with local requirements of the capital adequacy calculation.

Risks emerging in the Group's business and activities are defined as credit risk, market risk, currency risk, interest rate risk, liquidity risk and operational risk, but all are considered as a whole for management purposes.

Capital management

When managing the capital the Group aims to comply with the capital requirements set by the regulators of the banking market where the Parent Bank operates; to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for the shareholders and to maintain a strong capital base to support the development of its business.

To monitor the adequacy of its capital, the Group uses ratios established by Banking Regulation and Supervision Agency (BRSA). The minimum ratio is 8% (12% if banks operate in offshore markets). These ratios measure capital adequacy by comparing the Group's eligible capital with its balance sheet assets, off-balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk. As of 31 December 2012 capital adequacy ratio calculated based on the unconsolidated statutory financial statements is 31.16% . The Group's consolidated capital adequacy ratio based on consolidated statutory financial statements as of 31 December 2012 is 28.43%.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

30. FINANCIAL RISK MANAGEMENT (cont'd)

Credit risk

The Group takes on exposure to credit risk, which is the risk that a counter party will cause a financial loss for the Group by failing to discharge an obligation. Credit exposure arise principally in lending activities that lead to loans and advances and investment activities that bring debt securities into the Group's asset portfolio. There is also credit risk in off balance sheet financial instruments, such as loan commitments.

The Group determines the credit limits and restricts extension of loans and advances exceeding predetermined credit limits. The credit limits are determined for individual customers, companies, group of companies and risk groups separately for each type of product by taking into account the borrowers' financial structure, some qualitative criteria and the quality of the guarantees.

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

Group policy requires a review of the level of impairment allowance at least on a quarterly basis. Impairment allowances on individually assessed accounts are determined by evaluation of the exposure on a case by case basis. This will normally include a review of the collateral held and the assessment of actual and anticipated receipts. In addition a portfolio based assessment is also made for homogeneous groups of credit.

The Group uses its own internal rating system, which takes into account various financial and non-financial indicators for the evaluation of corporate and also guarantees. This system helps make decisions of allocating credit limits and accepted guarantees. The cash loans rated according to the possibility of being in default are classified from the highest grade to the lowest as below:

Basic Loan Quality Categories	31 December 2012 %	31 December 2011 %
High grade	2.89	7.44
Standard grade	94.76	88.93
Sub-standard grade	0.76	0.42
Impaired	0.99	2.43
Interest accruals	0.60	0.78
Total	<u>100.00</u>	<u>100.00</u>

Category "high" shows that the debtor has a strong financial structure, "standard" shows the debtor's financial structure is good enough while "sub-standard" category shows that debtor's financial structure is under risk in the short and medium term.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

30. FINANCIAL RISK MANAGEMENT (cont'd)

Credit risk (cont'd)

An industry sector analysis of the Group's cash loans are as follows:

Sector	<u>31 December 2012</u>		<u>31 December 2011</u>	
	<u>TL'000</u>	<u>(%)</u>	<u>TL'000</u>	<u>(%)</u>
Agriculture	1,152	0.29	755	0.29
Mining and quarrying	795	0.20	521	0.20
Manufacturing industry	49,742	12.58	32,594	12.58
Construction	35,763	9.04	23,434	9.04
Wholesale and Retail Trade	7,544	1.91	4,943	1.91
Hotel, Tourism, Food and Beverage Services	39,449	9.98	25,849	9.98
Transportation	32,004	8.09	20,971	8.09
Financial institutions	166,887	42.20	109,354	42.20
Other	62,130	15.71	40,711	15.71
Performing loans	<u>395,465</u>	<u>100.00</u>	<u>259,132</u>	<u>100.00</u>
Non-performing loans	<u>7,833</u>		<u>14,565</u>	
Total loans and advances to customer	<u>403,298</u>		<u>273,697</u>	
Allowance for loan losses	<u>(7,665)</u>		<u>(10,210)</u>	
Net loans and advances to customers	<u>395,633</u>		<u>263,487</u>	

An industry sector analysis of the Group's non-cash loans and commitments are as follows:

Sector	<u>31 December 2012</u>		<u>31 December 2011</u>	
	<u>TL'000</u>	<u>(%)</u>	<u>TL'000</u>	<u>(%)</u>
Agriculture	1,409	1.67%	1,499	1.32
Mining and quarrying	20	0.02%	-	-
Manufacturing industry	15,052	17.84%	24,936	21.90
Construction	21,434	25.41%	34,886	30.63
Wholesale and Retail Trade	1,370	1.62%	838	0.74
Hotel, Tourism, Food and Beverage Services	10,821	12.83%	12,319	10.82
Transportation	3,154	3.74%	3,762	3.29
Financial institutions	24,911	29.53%	29,089	25.54
Other	6,186	7.33%	6,556	5.76
Total	<u>84,357</u>	<u>100.00</u>	<u>113,885</u>	<u>100.00</u>

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

30. FINANCIAL RISK MANAGEMENT (cont'd)

Credit risk (cont'd)

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

	31 December 2012 TL'000	31 December 2011 TL'000
Balances with the Central Bank	52,535	55,344
Balances with banks	363,681	405,222
Money market placements	6,665	50,318
Financial assets at fair value through profit and loss	144	571
Loans and receivables	395,633	263,487
Leasing receivables	6,470	9,439
Factoring receivables	24,106	40,022
Financial assets available for sale	72,975	79,542
Other	37,631	21,932
Total	959,840	925,877
Non cash loans and commitments	319,421	258,709
Total	319,421	258,709

Credit quality per class of financial assets as of 31 December 2012 and 2011 are as follows:

	Neither past due nor impaired TL'000	Past due or individually impaired TL'000	Total TL'000
<u>31 December 2012</u>			
Loans (*)			
Corporate loans	286,664	1,324	287,988
Small business lending	101,132	8,526	109,658
Consumer loans	4,430	3,155	7,585
Other	21,802	2,994	24,796
Total	414,028	15,999	430,027

(*) Includes Loans and Receivables, Leasing Receivables and Factoring Receivables and excludes portfolio provision for loan losses.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

30. FINANCIAL RISK MANAGEMENT (cont'd)

Credit risk (cont'd)

31 December 2011	Neither past due nor impaired TL'000	Past due or individually impaired TL'000	Total TL'000
Loans (*)			
Corporate loans	165,700	9,680	175,380
Small business lending	54,713	17,254	71,967
Consumer loans	4,635	1,861	6,496
Other	55,998	5,216	61,214
Total	281,046	34,011	315,057

(*) Includes Loans and Receivables, Leasing Receivables and Factoring Receivables and excludes portfolio provision for loan losses.

Liquidity risk

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

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

	First Maturity Bracket (Weekly)		First Maturity Bracket (Weekly)	
	Current Period		Prior Period	
	FC	FC + TL	FC	FC + TL
Average (%)	144.51	184.71	143.81	175.79

	Second Maturity Bracket (Monthly)		Second Maturity Bracket (Monthly)	
	Current Period		Prior Period	
	FC	FC + TL	FC	FC + TL
Average (%)	130.17	152.25	129.78	144.99

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

30. FINANCIAL RISK MANAGEMENT (cont'd)

Liquidity risk (cont'd)

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

As at 31 December 2012	Demand	Up to 1	1 to 3	3 to 12	1 to 5	Over	Unallocated	Total
	TL'000	Month	Month	Month	Year	5 Year	TL'000	TL'000
ASSETS								
Cash, cash equivalents and the balances with the Central Bank	44,742	16,805	-	-	-	-	-	61,547
Balances with banks	15,292	348,389	-	-	-	-	-	363,681
Interbank money market placements	-	6,665	-	-	-	-	-	6,665
Financial assets at fair value through profit or loss (net)	-	-	-	-	-	-	-	-
Derivative financial assets	-	136	8	-	-	-	-	144
Loans (net)	-	179,665	70,343	58,605	87,019	1	-	395,633
Leasing receivables(net)	-	149	365	955	895	-	4,106	6,470
Factoring Receivables (net)	-	868	9,005	13,650	-	-	583	24,106
Investment securities (net)	-	2,992	-	15,939	42,690	11,354	-	72,975
Premises and equipment (net)	-	-	-	-	-	-	9,456	9,456
Intangible assets (net)	-	-	-	-	-	-	936	936
Other assets	2,761	36,733	129	-	-	-	196	39,819
Deferred tax asset (net)	-	-	-	-	-	-	1,618	1,618
Total assets	62,795	592,402	79,850	89,149	130,604	11,355	17,101	983,050
LIABILITIES								
Deposits	44,174	488,897	49,162	17,651	-	-	-	599,884
Obligations under repurchase agreements	-	55,558	-	-	-	-	-	55,558
Borrowings	-	94,658	102	443	-	-	-	95,203
Derivative financial liabilities	-	335	-	-	-	-	-	335
Securities issued	-	-	-	14,707	-	-	-	14,707
Factoring payables	-	789	-	-	-	-	-	789
Corporate tax payable	-	-	-	-	-	-	-	-
Employee benefits	-	-	-	-	-	-	1,337	1,337
Other provisions	-	-	-	-	-	-	1,358	1,358
Other liabilities	11,841	16,786	154	36	43	-	17,421	46,281
Share capital	-	-	-	-	-	-	164,368	164,368
Unrealized gains/(losses)	-	-	-	-	-	-	700	700
Legal reserves	-	-	-	-	-	-	4,590	4,590
Other reserves and retained earnings	-	-	-	-	-	-	(2,060)	(2,060)
Total liabilities	56,015	657,023	49,418	32,837	43	-	187,714	983,050
Net liquidity gap	6,780	(64,827)	31,015	56,312	130,561	11,355	(171,196)	-
As at 31 December 2011								
Total assets	54,556	553,503	65,204	128,712	56,042	66,633	22,524	947,174
Total liabilities	56,706	629,497	97,601	5,146	43	-	158,181	947,174
Net liquidity gap	(2,150)	(75,994)	(32,397)	123,566	55,999	66,633	(135,657)	-

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

30. FINANCIAL RISK MANAGEMENT (cont'd)

Liquidity risk (cont'd)

Analysis of financial liabilities by remaining contractual maturities:

	Demand	Up to 1 Month	1-3 Months	3-12 Months	1-5 years	Adjustments	Total
As at 31 December 2012 (TL'000)							
Obligations under repurchase agreements	-	55,579	-	-	-	(21)	55,558
Deposits	44,174	493,958	45,724	18,205	-	(2,177)	599,884
Borrowings	-	94,708	104	427	-	(36)	95,203
Total	44,174	644,245	45,828	18,632	-	(2,234)	750,645
As at 31 December 2011 (TL'000)							
Obligations under repurchase agreements	-	45,711	-	-	-	(18)	45,693
Deposits	44,865	426,946	60,926	4,889	-	(1,769)	535,857
Borrowings	-	163,805	12,693	2,158	-	(109)	178,547
Total	44,865	636,462	73,619	7,047	-	(1,896)	760,097

Analysis of contractual expiry by maturity of the Group's derivative financial instruments:

	Up to 1 Month	1-3 Months	Total
31 December 2012 (TL'000)			
Inflows	94,681	-	94,681
Outflows	95,061	-	95,061
	(380)	-	(380)
31 December 2011 (TL'000)			
Inflows	55,286	-	55,286
Outflows	54,818	-	54,818
	468	-	468

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

30. FINANCIAL RISK MANAGEMENT (cont'd)

Market risk

Market risks arise from changes in interest rates, foreign exchange rates and prices of equities, all of which are exposed to general and specific market movements. The Group considers currency risk and interest rate risk as the most important constituents of market risk. These are different levels of cut-loss and cut-profit policies to control the risks that may come from the fluctuations in the market.

Other than treasury bill positions, the Group places and borrows funds on a very short term basis, mostly on overnight, keeping the market risk of these transactions at minimum level. Thus, the Group acts quickly to any unexpected fluctuation in the market.

Interest rate risk

The Group is exposed to interest rate risk either through market value fluctuations of balance sheet items, i.e. price risk, or the impact of rate changes on interest-sensitive assets and liabilities. In Turkey, the interest rates are highly volatile and this may result in significant changes in the prices of financial instruments such as government bonds and treasury bills. These exposures are managed by using natural hedges that arise from offsetting interest rate sensitive assets and liabilities.

In case of any transactions that are exposed to interest rate risk, cut-loss policies are in place to control this risk. Interest rate risk is controlled and analyzed by duration analysis. Furthermore, various simulation techniques are employed in order to analyze the effects of market volatilities on the Group's balance sheet.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

30. FINANCIAL RISK MANAGEMENT (cont'd)

Interest rate risk (cont'd)

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

	Up to 1 Month TL'000	1 to 3 Month TL'000	3 to 12 Month TL'000	Over 1 Year TL'000	Non-interest bearing TL'000	Total TL'000
As at 31 December 2012						
ASSETS						
Cash, cash equivalents and the balances with the Central Bank	-	-	-	-	61,547	61,547
Balances with banks	348,389	-	-	-	15,292	363,681
Interbank money market placements	6,665	-	-	-	-	6,665
Financial assets at fair value through profit or loss (net)	-	-	-	-	-	-
Derivative financial assets	-	-	-	-	144	144
Loans (net)	180,081	112,207	20,714	82,425	206	395,633
Leasing receivables(net)	149	365	955	895	4,106	6,470
Factoring Receivables(net)	868	9,005	13,650	-	583	24,106
Investment securities (net)	34,871	8,759	29,345	-	-	72,975
Premises and equipment (net)	-	-	-	-	9,456	9,456
Intangible assets (net)	-	-	-	-	936	936
Other assets	-	-	-	-	39,819	39,819
Deferred tax asset (net)	-	-	-	-	1,618	1,618
Total assets	571,023	130,336	64,664	83,320	133,707	983,050
LIABILITIES						
Deposits	488,897	49,162	17,651	-	44,174	599,884
Obligations under repurchase agreements	55,558	-	-	-	-	55,558
Interbank money market borrowings	-	-	-	-	-	-
Borrowings	94,658	102	443	-	-	95,203
Derivative financial liabilities	-	-	-	-	335	335
Securities issued	-	-	14,707	-	-	14,707
Factoring payables	-	-	-	-	-	-
Corporate tax payable	-	-	-	-	789	789
Employee benefits	-	-	-	-	1,337	1,337
Other provisions	-	-	-	-	1,358	1,358
Other liabilities	-	1	-	-	46,280	46,281
Deferred tax liability (net)	-	-	-	-	-	-
Share capital	-	-	-	-	164,368	164,368
Unrealized gains/(losses)	-	-	-	-	700	700
Legal reserves	-	-	-	-	4,590	4,590
Other reserves and retained earnings	-	-	-	-	(2,060)	(2,060)
Total liabilities	639,113	49,265	32,801	-	261,871	983,050
Net interest sensitivity gap	(68,090)	81,071	31,863	83,320	(128,164)	-
As at 31 December 2011						
Total assets	585,642	104,820	110,856	31,990	113,866	947,174
Total liabilities	612,675	97,511	5,110	-	231,878	947,174
Net interest sensitivity gap	(27,033)	7,309	105,746	31,990	(118,012)	-

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

30. FINANCIAL RISK MANAGEMENT (cont'd)

Interest rate risk (cont'd)

As at 31 December 2012 and 31 December 2011, summary of average interest rates for different assets and liabilities are as follows:

	<u>31 December 2012</u>			<u>31 December 2011</u>		
	EURO %	USD %	TL %	EURO %	USD %	TL %
<u>Assets</u>						
Cash and balances with the Central Bank	-	-	-	-	-	-
Due from banks and other financial institutions	2.63	2.58	7.82	0.92	3.23	9.61
Money market placements	-	-	7.32	-	-	-
Investments available for sale	-	-	7.19	-	-	10.35
Loans	8.07	6.90	13.72	-	8.22	7.73
Leasing receivables	9.92	10.35	11.25	7.48	6.74	16.22
Factoring receivables	-	-	22.40	13.94	10.59	20.99
<u>Liabilities</u>						
Bank deposits	0.54	0.16	8.91	0.96	1.36	8.91
Other deposits	3.43	3.24	9.56	2.10	2.61	9.54
Money market borrowings	-	-	5.58	-	-	-
Securities issued	-	-	8.24	-	-	-
Borrowings	0.33	0.32	6.70	0.50	0.74	12.47

Interest Rate Sensitivity:

If interest rates had been changed by 1% in TL and by 0.5% in FC and all other variables were held constant, the Group's profit for the year would change by TL 829 Thousand (2011: TL 1,612 Thousand).

Currency risk

Foreign currency denominated assets and liabilities together with purchase and sale commitments give rise to foreign exchange exposure. Long and short exposures are hedged on a portfolio basis with derivative financial instruments that include primarily forward foreign exchange contracts and currency swaps. Currency risk is also controlled through keeping a short position within local requirements.

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The tables below summarize the Group's exposures to foreign currency exchange rate risk at 31 December 2012 and 2011. Included in the table are the Group's assets and liabilities and equity at carrying amounts, categorized by currency.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

30. FINANCIAL RISK MANAGEMENT (cont'd)

Currency risk (cont'd)

Foreign currency position of the Group is as follows:

As at 31 December 2012	EURO	USD	Other Foreign Currencies	TL	Total
ASSETS					
Cash, cash equivalents and the balances with the Central Bank	13,433	28,306	9,989	9,819	61,547
Balances with banks	4,241	50,108	13,035	296,297	363,681
Interbank money market placements	-	-	-	6,665	6,665
Financial assets at fair value through profit or loss (net)	-	-	-	-	-
Derivative financial assets	89	52	-	3	144
Loans (net)	21,188	67,818	780	305,847	395,633
Leasing receivables	889	4,965	-	616	6,470
Factoring Receivables (net)	-	-	-	24,106	24,106
Investment securities (net)	-	-	-	72,975	72,975
Premises and equipment (net)	-	-	-	9,456	9,456
Intangible assets (net)	-	-	-	936	936
Other assets	131	330	1	39,357	39,819
Deferred tax asset (net)	-	254	-	1,364	1,618
Total	39,971	151,833	23,805	767,441	983,050
LIABILITIES					
Deposits	87,108	117,415	14,086	381,275	599,884
Interbank money market borrowings	-	-	-	-	-
Obligations under repurchase agreements	-	-	-	55,558	55,558
Borrowings	1,293	65,435	-	28,475	95,203
Derivative financial liabilities	161	174	-	-	335
Bond issued	-	-	-	14,707	14,707
Corporate tax payable	-	-	-	789	789
Employee benefits	-	-	-	1,337	1,337
Provisions	-	-	-	1,358	1,358
Other liabilities	599	1,206	317	44,159	46,281
Share capital	-	-	-	164,368	164,368
Unrealized gains/(losses)	-	-	-	700	700
Legal reserves	-	-	-	4,590	4,590
Other reserves and retained earnings	-	-	-	(2,060)	(2,060)
Total	89,161	184,230	14,403	695,526	983,050
Net balance sheet position	(49,190)	(32,397)	9,402	86,895	-
Off-balance sheet position					
Net notional amount of derivatives	50,134	34,430	(9,186)	72,185	170,701
As at 31 December 2011					
Total assets	155,836	220,403	12,502	558,433	947,174
Total liabilities	158,619	263,407	13,201	511,947	947,174
Net balance sheet position	(2,783)	(43,004)	(699)	46,486	-
Off-balance sheet position					
Net notional amount of derivatives	2,784	46,331	940	49,587	99,642

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

30. FINANCIAL RISK MANAGEMENT (cont'd)

Currency risk (cont'd)

Foreign Currency Sensitivity:

The Group is mainly exposed to EUR, GBP and USD currencies.

The following table details the Group's sensitivity to a 10% increase and decrease in the TL against USD, EUR and GBP. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. A positive number indicates an increase in profit or loss and other equity where the TL strengthens against USD, EUR and GBP.

	Change in currency rate in %	Effect on profit or loss		Effect on equity	
		Current Period TL'000	Prior Period TL'000	Current Period TL'000	Prior Period TL'000
USD	10	(203)	(333)	-	10
EUR	10	(94)	-	-	-
GBP	10	(21)	(200)	-	-

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

Operational risk

The most comprehensive meaning of operational risk is considered to be any risk which is not classified as market and credit risk. In managing operational risk, increasing the skills of the staff, improving job technology and job definitions, establishing the necessary internal controls and various insurances are employed as the main methods. The internal control and audit mechanism contributes greatly to the management of operational risk.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

30. FINANCIAL RISK MANAGEMENT (cont'd)

Fair Values of Financial Instruments

As at 31 December 2012 and 31 December 2011, fair values of financial assets and liabilities are as follows:

	31 December 2012		31 December 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<u>Financial assets</u>				
Financial assets at fair value through profit or loss				
- Derivative financial instruments	144	144	571	571
Available-for-sale financial assets	72,975	72,975	79,542	79,542
Loans (*)	430,027	430,027	312,948	312,862
<u>Financial liabilities</u>				
Derivative financial instruments	335	335	15	15
Borrowings	150,761	150,761	178,547	178,547

(*) The Group management assumes that the fair values of the loans approximate their carrying values since the majority of the loans are short-term.

The fair value of available for sale securities is based on market prices. Where market prices are not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

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

The fair value of deposits with no stated maturity, floating rate placements and overnight deposits is their carrying amount. The estimated fair value of bank deposits and customer deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using interest rates for new deposits with similar remaining maturity.

Fair values of remaining financial assets and liabilities carried at amortized cost are considered to approximate their respective carrying values due to their short-term nature.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

30. FINANCIAL RISK MANAGEMENT (cont'd)

Fair Values of Financial Instruments (cont'd)

Fair value hierarchy

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or ,
- Level 3: Inputs for the asset or liability that is not based on observable market data (unobservable inputs).

<u>31 December 2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at fair value through profit or loss				
- Derivative financial instruments	-	144	-	144
Available-for-sale financial assets	72,975	-	-	72,975
<u>Financial liabilities</u>				
Derivative financial instruments	-	335	-	335
 <u>31 December 2011</u>	 <u>Level 1</u>	 <u>Level 2</u>	 <u>Level 3</u>	 <u>Total</u>
Financial assets at fair value through profit or loss				
- Derivative financial instruments	-	571	-	571
Available-for-sale financial assets	79,542	-	-	79,542
<u>Financial liabilities</u>				
Derivative financial instruments	-	15	-	15

31. SUBSEQUENT EVENTS

Bank Turan Alem bonds that are classified under the follow-up accounts as of April 2012 as a result of the coupon payments that were not made, were decided to be restructured at the Extraordinary General Meeting of the issuer bank, Bank Turan Alem, held on December 31, 2012 by the majority voting of shareholders. The related procedures were completed in January 2013 in accordance with the restructuring plan.

TURKISH BANK A.Ş. AND ITS SUBSIDIARIES

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012**

32. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the directors on 18 April 2013.