NUROL YATIRIM BANKASI ANONİM ŞİRKETİ

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2012

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Nurol Yatırım Bankası Anonim Şirketi

1. We have audited the accompanying financial statements of Nurol Yatırım Bankası Anonim Şirketi ("the Bank"), which comprise the statement of financial position as of 31 December 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management responsibility for the financial statements

2. Management is responsible for the preparation and fair presentation of these 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.

Auditors' responsibility

3. 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.

4. 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 opinion.

Deloitte.

Opinion

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

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

6. As indicated in Note 25, the Bank has performed the significant portion of its banking transactions with the related party firms (Nurol Group) as of the balance sheet date.

DRT Bağımsız Denetim ve SMMM A.Ş.

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

Istanbul, 11 June 2013

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NUROL YATIRIM BANKASI ANONİM ŞİRKETİ
Statement of Financial Position
As of 31 December 2012
(Currency - In thousands of Turkish Lira)

	Note	31 December 2012	31 December 2011
Assets			
Cash and cash equivalents	*4*	14,057	13,602
Reserve deposits at Central Bank	*5*	5,225	3,727
Held for trading investments	*6*	8,068	5,866
Available for sale investments	*7*	56,888	27,714
Loans and advances to customers	*8*	150,576	116,923
Property and equipment	*9*	798	646
Intangible assets	*10*	813	536
Deferred tax assets	*15*	-	260
Other assets	*11*	16,976	18,510
Total assets		**253,401**	**187,784**
Liabilities			
Funds borrowed	*12*	124,756	111,960
Other liabilities	*13*	10,556	1,572
Derivative financial instruments		48	176
Provisions	*14*	2,686	2,383
Current Tax Liability	*15*	183	218
Deferred tax liabilities	*15*	2,115	-
Total liabilities		**140,344**	**116,309**
Equity			
Share capital	*17*	45,000	45,000
Reserves	*17*	46,159	8,125
Retained earnings		21,898	18,350
Total equity		**113,057**	**71,475**
Total liabilities and equity		**253,401**	**187,784**

The accompanying notes are an integral part of these financial statements.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ
Statement of Comprehensive Income
For the year ended 31 December 2012
(Currency - In thousands of Turkish Lira)

	Note	1 January-31 December 2012	1 January-31 December 2011
Interest income	*18*	20,097	11,526
Interest expense	*18*	(7,948)	(5,578)
Net interest income		**12,149**	**5,948**
Fee and commission income	*19*	3,540	3,066
Fee and commission expense	*19*	(867)	(751)
Net fee and commission income		**2,673**	**2,315**
Net trading income / (loss)	*20*	1,258	1,864
Other operating income	*21*	360	14,042
		1,618	**15,906**
Operating income		**16,440**	**24,169**
Net impairment recoveries on financial assets	*8*	516	1,547
Other provision expenses		(24)	(1,347)
Personnel expenses	*22*	(5,335)	(4,133)
Depreciation and amortisation		(587)	(806)
Administrative expenses	*23*	(6,349)	(5,443)
Profit before income tax		**4,661**	**13,987**
Income tax expense	*15*	(789)	(872)
Profit from continued operations		**3,872**	**13,115**
Income from discontinued operations		-	-
Income tax provision from discontinued operations		-	-
Profit from discontinued operations		-	-
Profit for the year		**3,872**	**13,115**
Other comprehensive income			
Available-for-sale financial assets			
Gains(Loss) arising during the year		78,716	11,707
Less: Reclassification adjustments for gains included in profit or loss		(39,718)	(6,425)
Income tax relating to components of other comprehensive income	*15*	(1,288)	(3,348)
Other comprehensive income for the year, net of income tax		**37,710**	**1,934**
Total comprehensive income for the year		**41,582**	**15,049**

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Equity
For the year ended 31 December 2012

(Currency - In thousands of Turkish Lira)

	Note	Share capital	Adjustment to share capital	Fair value reserve of available for sale financial assets	Legal reserves	Accumulated gain/(losses)	Total equity
Balances at 1 January 2011		45,000	-	5,527	664	5,235	56,426
Transfers to legal reserves		-	-	-	-	-	-
Total comprehensive income for the year							
- Profit for the year		-	-	-	-	13,115	13,115
Other comprehensive income for the year, net of tax	*18*	-	-	1,934	-	-	1,934
Total other comprehensive income		-	-	1,934	-	-	1,934
Total comprehensive income for the year		-	-	1,934	-	13,115	15,049
Balance at 31 December 2011		45,000	-	7,461	664	18,350	71,475
Balances at 1 January 2012		45,000	-	7,461	664	18,350	71,475
Transfers to legal reserves		-	-	-	324	(324)	-
Total comprehensive income for the year							
- Profit for the year		-	-	-	-	3,872	3,872
Other comprehensive income for the year, net of tax	*18*	-	-	37,710	-	-	37,710
Total other comprehensive income		-	-	-	-	-	-
Total comprehensive income for the year		-	-	37,710	-	3,872	41,582
Balance at 31 December 2012		45,000	-	45,171	988	21,898	113,057

The accompanying notes are an integral part of these financial statements.

NUROL YATIRIM BANKASI ANONİM ŞİRKETİ

Statement of Cash Flows

For the year ended 31 December 2012

(Currency - In thousands of Turkish Lira)

	Note	1 January-31 December 2012	1 January-31 December 2011
Cash flows from operating activities			
Net profit for the year		3,872	13,115
Adjustments:			
Depreciation and amortisation		587	806
Current tax provision	*15*	443	218
Deferred tax	*15*	346	654
Provision for loan losses	*8*	2	113
Other provisions		1,121	2,826
Accrual on derivative instruments		(128)	176
Other accruals		2,326	(881)
Foreign exchange loss / (gain)		322	(4,149)
Gain on sale of investment property		-	(6,235)
Gain on sale of available for sale assets		(1,288)	(8,646)
Other		878	(607)
		8,481	**(2,610)**
Changes in operating assets and liabilities			
Change in held for trading investments		(2,113)	(4,747)
Change in loans and advances to customers		(33,710)	1,743
Change in reserve deposits		(1,498)	6,781
Change in other assets		656	(240)
Change in other liabilities		7,688	(2,831)
Change in borrowings		11,816	(44,614)
Net cash provided by / (used in) operating activities		**(8,680)**	**(46,518)**
Cash flows from investing activities			
Purchase of available for sale investments		(2,224)	(94,842)
Proceed from sale of available for sale investments		12,703	99,663
Purchase of investment property		-	(354)
Purchase of property and equipment	*9*	(434)	(263)
Proceeds from sale of property and equipment		19	86
Proceeds from sale of investment property		-	654
Purchase of intangible assets	*10*	(601)	(290)
Net cash used in investing activities		**9,463**	**4,654**
Net cash provided by financing activities		**-**	**-**
Effect of foreign exchange rate change on cash and cash equivalents		(322)	4,149
Net increase / (decrease) in cash and cash equivalents		**461**	**(37,715)**
Cash and cash equivalents at 1 January		13,596	51,311
Cash and cash equivalents at 31 December		**14,057**	**13,596**

The accompanying notes are an integral part of these financial statements.

(Currency - In thousands of Turkish Lira)

1. Corporate information

General

Nurol Yatırım Bankası A.Ş. (the "Bank" or "Nurolbank") was established in 1998 by the permission of the council of Ministers Decree No. 98/11565 dated 6 August 1998, to finance investment and foreign trade activities, and started its financial banking activities in May 1999. Nurolbank is owned and controlled by the Nurol Holding AŞ. Nurolbank operates as an investment bank and is also involved in corporate services such as financial leasing, lending and trade finance. According to the current legislation for investment banks, the Bank is not authorised to receive deposits from customers. The Bank's head office is located at Nurol Plaza in Maslak in Istanbul, Turkey.

The shareholders' structure of the Bank is as disclosed below:

Shareholders	Total nominal value of the shares	Share percentage (%)
Nurol Holding A.Ş.	35,169	78.15
Nurol İnşaat ve Tic. A.Ş.	7,180	15.96
Other	2,651	5.89

The shareholder having direct or indirect control over the shares of the Parent Bank is Nurol Group. The Group has operations in construction, defence, finance, tourism, health, mining, real estate, marketing and manufacturing industries through 33 firms within the Nurol Group, 4 joint ventures and 11 domestic-foreign associates and subsidiaries.

The Board of Directors comprised the following members:

Nurettin Çarmıklı	*Chairman*
Erol Çarmıklı	*Deputy Chairman of Board*
M. Oğuz Çarmıklı	*Deputy Chairman of Board*
Dr. Ahmet Paşaoğlu	*Board Member*
S. Ceyda Çarmıklı	*Board Member*
Talat Saral	*Board Member (Audit Committee Member)*
Yusuf Serbest	*Board Member*
Prof Dr. Dursun Ali Alp	*Board Member (Audit Committee Member)*
Pınar Cengiz	*Board Member – General Manager*
Ahmet Kerim Kemahlı	*Board Member*

2. Adoption of New and Revised Standards

a. New and revised standards affecting presentation and disclosure only

None.

b. New and revised standards affecting the reported financial performance and / or financial position

None.

c. Standards and Interpretations that are effective in 2012 with no impact on the 2012 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 Bank does not have investment property as of the balance sheet date so the amendment did not have any effect on the 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 Bank's disclosures. However, if the Bank enters into other types of transfers of financial assets in the future, disclosures regarding those transfers may be affected.

(Currency - In thousands of Turkish Lira)

2. Adoption of New and Revised Standards *(continued)*

d. New and Revised IFRSs in issue but not yet effective and not early adopted by the Bank and amendments and interpretation for the current standards:

Amendments to IAS 1	*Presentation of Items of Other Comprehensive Income*[1]
Amendments to IAS 1	*Clarification of the Requirements for Comparative Information*[2]
IFRS 9	*Financial Instruments*[5]
IFRS 10	*Consolidated Financial Statements*[3]
IFRS 11	*Joint Arrangements*[3]
IFRS 12	*Disclosure of Interests in Other Entities*[3]
IFRS 13	*Fair Value Measurement*[3]
Amendments to IFRS 7	*Disclosures – Offsetting Financial Assets and Financial Liabilities*[3]
Amendments to IFRS 9 and IFRS 7	*Mandatory Effective Date of IFRS 9 and Transition Disclosures*[5]
Amendments to IFRS 10, IFRS 11 and IFRS 12	*Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guide*[3]
IAS 19 (as revised in 2011)	*Employee Benefits*[3]
IAS 27 (as revised in 2011)	*Separate Financial Statements*[3]
IAS 28 (as revised in 2011)	*Investments in Associates and Joint Ventures*[3]
Amendments to IAS 32	*Offsetting Financial Assets and Financial Liabilities*[4]
Amendments to IFRSs	*Annual Improvements to IFRSs 2009-2011 Cycle except for the amendment to IAS 1*[3]

[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.

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.

2. Adoption of New and Revised Standards *(continued)*

d. New and Revised IFRSs in issue but not yet effective and not early adopted by the Bank and amendments and interpretation for the current standards (continued):

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.

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 Bank management anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Bank'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.

2. Adoption of New and Revised Standards *(continued)*

d. New and Revised IFRSs in issue but not yet effective and not early adopted by the Bank and amendments and interpretation for the current standards (continued):

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..

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.

2. Adoption of New and Revised Standards *(continued)*

d. New and Revised IFRSs in issue but not yet effective and not early adopted by the Bank and amendments and interpretation for the current standards (continued):

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 Bank management anticipates that IFRS 13 will be adopted in the Bank's 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.

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 Bank 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.

2. Adoption of New and Revised Standards *(continued)*

d. New and Revised IFRSs in issue but not yet effective and not early adopted by the Bank and amendments and interpretation for the current standards (continued):

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 Bank management does not anticipate that the amendments to IAS 16 will have a significant effect on the Bank's 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 Bank management does not anticipate that the amendments to IAS 32 will have a significant effect on the Bank's financial statements.

(Currency - In thousands of Turkish Lira)

3. Significant accounting policies

3.1 Statement of compliance:

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

The Bank maintains its books of account and prepares its statutory financial statements in accordance with Turkish Accounting Standards, Financial Reporting Standards and other regulations on accounting and reporting standards promulgated by the Banking Regulation and Supervision Agency ("BRSA").

The financial statements have been prepared from statutory financial statements of the Bank and presented in accordance with IFRS in Turkish Lira ("TL") with adjustments and certain reclassifications for the purpose of fair presentation in accordance with IFRS.

The accompanying financial statements as of 31 December 2012 are authorised for issue by the Board of Directors on 11 June 2013. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

3.2 Basis of preparation:

The financial statements have been prepared on the historical cost basis except for the revaluation of financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

3.3 Accounting in hyperinflationary economies

The financial statements of the Bank 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 "Financial Reporting in Hyperinflationary Economies". 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 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.

3.4 Foreign currency transactions

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. Foreign currency differences arising on retranslation are recognised in profit or loss.

Foreign currency translation rates used by the Bank are as follows:

	USD / TL(full)	EUR / TL(full)
31 December 2012	1.7826	2.3517
31 December 2011	1.8850	2.4420

3.5 Interest income and interest expense

Interest income and expense are recognised in the profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of financial instrument, but not future credit losses. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

3. Significant accounting policies *(continued)*

3.5 Interest income and interest expense *(continued)*

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income statement include:

- the interest income on financial assets and liabilities at amortised cost on an effective interest rate basis
- the interest income on held for trading investments and available for sale investments.

Interest income is suspended when loans are impaired and is excluded from interest income until received.

3.6 Fees and commission

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

Other fees and commission income, including account servicing fees, investment management fees, sales commission and placement fees are recognised as the related services are performed.

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

3.7 Net trading income

Net trading income comprises gains less loss related to held for trading investments and liabilities, and includes all realised and unrealised fair value changes and interest. Any realised or unrealised fair value changes and interest of non-qualifying derivatives, held for risk management purposes, are recorded as foreign exchange gain.

3.8 Dividends

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

3.9 Taxation and deferred income taxes

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 liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases which are used in the computation of taxable profit. 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 deferred tax 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.

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.

3. Significant accounting policies *(continued)*

3.9 Taxation and deferred income taxes *(continued)*

Deferred tax (continued)

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 Bank 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 Bank 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 that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside profit or loss, 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 acquiree's identifiable assets, liabilities and contingent liabilities over cost.

Investment Incentives

The phase " ... only attributable to 2006, 2007 and 2008", which was included in the paragraph set out in Provisional Article 69 of Income Tax Law No: 193 is deleted upon the Constitutional Court's resolution no: 2009/144 and the related decision was published in the Official Gazette on 8 January 2010. Investment incentive application was revised based on Article 5 of Law No: 6009, which had been published in the Official Gazette No: 27659 on 1 August 2010. Under the revised law, the investment incentive amount which would be used as a discount in determining the tax basis should not exceed 25% of the related period's profit, only to the extent that it is applicable to profit for the related period, whereas corporate tax would be calculated based on the applicable tax rate over the remaining profit. The requirement stating that deductible investment incentive amount cannot exceed the 25% of annual earnings has been annulled upon the Constitutional Court's decision no:2010/93, K: 2012/9 issued on 9 February 2012. The full annulment decision has not been published in the Official Gazette as of the report date but the decision for the stay of execution is published in the Official Gazette on 18 February 2012. As of 31 December 2012, there is no investment incentive amount that is planned to be deducted by the Bank from its corporate income in the future and therefore there is no deferred tax asset recognized in the Bank's financial statements related to the investment incentive (31 December 2011: TL 430 deferred tax asset).

3. Significant accounting policies (continued)

3.10 Financial assets and liabilities

Financial Assets

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

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'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

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 to the net carrying amount on initial recognition.

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 and financial assets designated under this category upon initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or achieved more relevant accounting measurement. Derivatives are also categorized as held for trading unless they are designated as hedges.

3. Significant accounting policies *(continued)*

3.10 Financial assets and liabilities *(continued)*

Financial Assets *(continued)*

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank 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.

Available for sale financial assets

Quoted equity investments and quoted certain debt securities held by the Bank that are traded in an active market are classified as being available-for-sale financial assets and are stated at fair value. The unquoted equity investments that are not traded in an active market but are also classified as available-for-sale financial assets are stated at cost since their value cannot be reliably measured. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on available for sale equity instruments are recognized in profit and loss when the Bank has the right to receive any payment.

The fair value of available for sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the prevailing exchange rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortized cost of the asset is recognized in profit or loss, and other changes are recognized in equity.

Due from banks and loans and advances to customers

Due from banks and loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

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

When the Bank purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo or stock borrowing"), the arrangement is accounted for as a due from banks, and the underlying asset is not recognised in the Bank's financial statements.

Due from banks and loans and advances to customers are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

3. Significant accounting policies *(continued)*

3.10 Financial assets and liabilities *(continued)*

Financial Assets *(continued)*

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss are subject to impairment testing at each balance sheet date to determine whether there is any indication of impairment of financial asset or financial asset group. An entity shall assess at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset. That loss event or events must also have an impact on the estimated future cash flows of the financial asset or group of financial assets. For loans and receivables, the amount of 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 impairment loss directly for all financial assets with the exception of lease receivables where the carrying amount is reduced through the use of an allowance account. When a loan is uncollectible, it is written off against the allowance account. Changes in allowance accounts are recognized in profit or loss.

With the exception of available for sale 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 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. Increase in fair value of available for sale financial assets subsequent to impairment is recognized in 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. The carrying amount of the assets approximates their fair value.

Derecognition of financial assets

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

3. Significant accounting policies *(continued)*

3.10 Financial assets and liabilities *(continued)*

Financial Liabilities

Financial liabilities and equity instruments issued by the Bank 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 Bank after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

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

Financial liabilities at fair value through profit or loss

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.

Other financial liabilities

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

Other financial liabilities are subsequently measured at amortized cost using the effective interest method plus the interest expense recognized on an effective yield basis. The effective interest method is calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate discounts the estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Deposits, funds borrowed and debt securities issued

The Bank is not entitled to collect deposits. Current accounts of loan customers and funds borrowed are the Bank's sources of debt funding.

Current accounts of loan customers and funds borrowed are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Derecognition of financial liabilities

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire.

3. Significant accounting policies *(continued)*

3.10 Financial assets and liabilities *(continued)*

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date which a derivative contract is entered into and subsequently remeasured at fair value. Any gains or losses arising from changes in fair value of derivatives that do not qualify for hedge accounting are recognised in profit or loss.

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

3.11 Property and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and any accumulated impairment losses.

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 and, for qualifying assets, borrowing costs capitalized. 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.

3.12 Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately are reported at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

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 (three to five years).

Costs associated with developing or maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Costs include the software development employee costs and an appropriate portion of relevant overheads.

3. Significant accounting policies *(continued)*

3.13 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.

3.14 Investment properties

Investment property, which is property, held to earn rentals and/or for capital appreciation is carried at cost less accumulated depreciation and any accumulated impairment losses. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property. Depreciation is provided on investment property on a straight line basis. The depreciation period for investment property is 50 years.

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

If owner occupied property becomes an investment property, the Bank accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in profit or loss in the year of retirement or disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Bank accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

No assets held under operating lease have been classified as investment properties.

3.15 Leases

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

The Bank as lessee

Assets held under finance leases are initially recognized as assets of the Bank 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 statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets.

3. Significant accounting policies *(continued)*

3.15 Leases *(continued)*

The Bank as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Bank'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 Bank's net investment outstanding in respect of the leases.

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.

3.16 Provisions

Provisions are recognized when the Bank has a present obligation as a result of a past event, and it is probable that the Bank 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.

3.17 Employee benefits

Termination and retirement benefits

Under Turkish law and union agreements, lump sum payments are made to employees retiring or involuntarily leaving the Bank. 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.

Profit-sharing and bonus plans

The Bank recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(Currency - In thousands of Turkish Lira)

3. Significant accounting policies *(continued)*

3.18 Fiduciary assets

Assets held by the Bank in a fiduciary, agency or custodian capacity for its customers are not included in the balance sheet, since such items are not treated as assets of the Bank.

3.19 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Bank operates in investment and corporate banking. Accordingly, the Bank invests with the funds provided by using the capital market instruments and provides consultancy services so as to provide efficient management and sound financial structure to business enterprises.

The Bank provides investment and operating loans to its commercial and personal customers and also provides service packages consisting of foreign trade operations, investment products, cash management, financial leasing, factoring, and other banking products.

Major financial statement items according to business lines:

2012	Retail banking	Corporate banking	Investment banking	Other (*)	Total operations of the Bank
Operating income	33	13,490	714	2,203	16,440
Other expenses	-	(11,779)	-	-	(11,779)
Profit before income tax	33	1,711	714	2,203	4,661
Income tax income/expense	-	-	-	-	(789)
Profit from continued operations	33	1,711	714	2,203	3,872
Profit from discontinued operations	-	-	-	-	-
Profit for the year	**33**	**1,711**	**714**	**2,203**	**3,872**
31 December 2012					
Segment assets	383	238,994	-	14,022	253,399
Non-distributed Asset	-	-	-	2	2
Total assets	**383**	**238,994**	**-**	**14,024**	**253,401**
Segment liabilities	-	140,344	-	-	140,344
Shareholders' equity	-	-	-	113,057	113,057
Total liabilities	**-**	**140,344**	**-**	**113,057**	**253,401**

(*) TL 1,288 Thousand of other operating income in "other" column is the gain on sale of the shares of Nurol Gayrimenkul Yatırım Ortaklığı A.Ş. For details please see Note 7. TL 913 Thousand of operating income in "Other" column is the interest income on sale of Bank's property (flour factory), on 7 October 2011 at an amount of USD 11,354 Thousand which includes 6% of interest and which will be paid in 96 installments amounting to USD 118 Thousand each.

(Currency - In thousands of Turkish Lira)

3. Significant accounting policies *(continued)*

3.19 Segment reporting *(continued)*

2011	Retail Banking	Corporate Banking	Investment banking	Other(*)	Total operations of the Bank
Operating income	27	8,355	631	15,156	24,169
Other expenses	-	(10,182)	-	-	(10,182)
Profit before income tax	27	(1,827)	631	15,156	13,987
Income tax expense	-	-	-	-	(872)
Profit from continued operations	27	(1,827)	631	15,156	13,115
Profit from discontinued operations	-	-	-	-	-
Profit / (loss) for the year	**27**	**(1,827)**	**631**	**15,156**	**13,115**
31 December 2011					
Segment assets	408	170,579	-	16,535	187,522
Non-distributed Asset	-	-	-	-	262
Total assets	**408**	**170,579**	**-**	**16,535**	**187,784**
Segment liabilities	-	116,309	-	-	116,309
Shareholders' equity	-	-	-	71,475	71,475
Total liabilities	**-**	**116,309**	**-**	**71,475**	**187,784**

(*) TL 7,092 of operating income in "Other" column is the gain on sale of the shares of Nurol International BV. of which the Bank owned 25.03%. For details please see Note 7. TL 1,554 Thousand of other operating income is the gain on sale of the shares of Nurol Gayrimenkul Yatırım Ortaklığı A.Ş. For details please see Note 7. TL 6,235 Thousand of operating income in "Other" column is the gain on sale of Bank's property (flour factory), on 7 October 2011 at an amount of USD 11,354 Thousand which includes 6% of interest and which will be paid in 96 installments amounting to USD 118 Thousand each.)

Geographical concentration

	Assets	Liabilities	Non-cash loans	Capital expendi-tures	Net profit / (loss)
2012					
Domestic	245,513	128,421	388,328	798	3,872
European Union countries	4,675	-	-	-	-
OECD countries	8	-	-	-	-
USA, Canada	3,205	-	-	-	-
Other countries	-	11,923	-	-	-
Total	**253,401**	**140,344**	**388,328**	**798**	**3,872**
2011					
Domestic	161,694	178,653	356,130	10,361	13,805
European Union countries	1,809	-	-	-	(684)
OECD countries	11	96	-	-	(6)
USA, Canada	5,054	-	-	-	-
Other countries	8,855	9,035	-	-	-
Total	**177,423**	**187,784**	**356,130**	**10,361**	**13,115**

3. Significant accounting policies *(continued)*

3.20. Use of estimates and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in note 3.21.

3.21. 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 3.10.

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 3.10. For financial instruments that require varying degrees of judgement depending liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. See also "Valuation of financial instruments" below.

Critical accounting judgements in applying the Bank's accounting policies

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

Impairment of investment in equity securities

Investments in equity securities are evaluated for impairment on the basis described in accounting policy 3.10.

Valuation of financial instruments

The Bank's accounting policy on fair value measurements is discussed in accounting policy 3.10.

Financial asset and liability classification

The Bank'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 Bank has determined that it meets the description of held for trading investments and liabilities set out in accounting policy 3.10.
- In classifying financial assets as "available for sale", the bank has determined that it meets the description of available for sale investments set out in accounting policy 3.10 and note 7.

Details of the Bank's classification of financial assets and liabilities are given in note 24.

(Currency - In thousands of Turkish Lira)

4. Cash and cash equivalents

	31 December 2012	31 December 2011
Cash and balances with central banks	1,208	1,982
- Cash on hand	*283*	*432*
- Balances with central banks	*925*	*1,550*
Due from banks and financial institutions	12,849	11,620
Cash and cash equivalents in the balance sheet	**14,057**	**13,602**

As at 31 December 2012 and 2011, the details of the balances with central banks and due from banks and financial institutions are as follows:

	31 December 2012			
	Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Balances with Central Bank	912	13	-	-
Due from banks and financial institutions	4,563	8,286	9.79%	0.28%
Total	**5,475**	**8,299**		

	31 December 2011			
	Amount		Effective interest rate	
	Turkish Lira	Foreign currency	Turkish Lira	Foreign currency
Balances with Central Bank	1,470	80	-	-
Due from banks and financial institutions	8,930	2,690	7.90%	0.63%
Total	**10,400**	**2,770**		

5. Reserve deposits at Central Bank

	31 December 2012	31 December 2011
Turkish Lira	-	-
Foreign currency	5,225	3,727
	5,225	**3,727**

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.

As of 31 December 2012, the compulsory rates for the reserve deposits at the Central Bank of Turkey for Turkish Lira are implemented within an interval from 5% to 11% depending on the maturity of deposits (31 December 2011 – 5% - 11%) and the compulsory rates for the foreign currency liabilities are within an interval from 6% to 11% depending on the maturity of deposits (31 December 2011 – 9% - 11%).

(Currency - In thousands of Turkish Lira)

6. Held for trading investments

	31 December 2012	31 December 2011
Debt instruments		
Turkish government bonds-TL denominated	8,068	5,866
Total held for trading investments	**8,068**	**5,866**

Income and losses comprising the gains and losses related to and liabilities and realised and unrealised fair value changes are reflected in the income statement as net trading income / (loss).

7. Available for sale investments

	31 December 2012		31 December 2011	
	Amount	Effective interest rate	Amount	Effective interest rate
Available-for-sale investments at fair value				
Debt instruments – TL denominated [a]	7,254	6.59%	17,353	12.00%
Equity instruments – listed [b]	49,634		10,361	
Total available-for-sale investments at fair value	**56,888**		**27,714**	

(a) Available for sale debt instruments include government bonds denominated in TL amounting to TL 1,936 Thousand; the remaining portion amounting to TL 5,318 consists of private sector bonds.

(b) The Bank disposed 79,432 shares and 223,593 shares out of its 1,900,000 shares of Nurol Gayrimenkul Yatırım Ortaklığı A.Ş.("Company") in 2012 and 2011 respectively. The Bank recognized the gain on disposal of TL 1,288 in "Securities trading gains/ (losses)" account in the income statement for the year 2012 (2011: TL 1,554 Thousand). In 2012, the Company increased capital through bonus issue by 300% and as of 31 December 2012 number of shares held by the Bank has increased to 6,387,900 .The Bank holds 15.97% of the Company's shares as of 31 December 2012 and the investment is accounted under available for sale investments, as the Bank has no significant influence on the Company. As of the balance sheet date the shares are accounted for using the market price and fair value reserve of TL 47,417 Thousand is accounted under equity (31 December 2011: TL 8,033).

(Currency - In thousands of Turkish Lira)

8. Loans and advances to customers

	31 December 2012			
	Amount			
	TL	Foreign Currency	Foreign currency indexed	Total
Short-term loans	102,988	2,598	-	105,586
Medium and long-term loans	32,506	12,318	-	44,824
Total performing loans	**135,494**	**14,916**	**-**	**150,410**
Non-performing loans	421	-	-	421
Less: Reserve for possible loan losses	(255)	-	-	(255)
Total loans, net	**135,660**	**14,916**	**-**	**150,576**

	31 December 2011			
	Amount			
	TL	Foreign Currency	Foreign currency indexed	Total
Finance lease receivables	-	38	-	38
Short-term loans	80,458	3,735	3,799	87,992
Medium and long-term loans	28,652	-	-	28,652
Total performing loans	**109,110**	**3,773**	**3,799**	**116,682**
Non-performing loans	22,613	-	-	22,613
Less: Reserve for possible loan losses	(22,372)	-	-	(22,372)
Total loans, net	**109,351**	**3,773**	**3,799**	**116,923**

(Currency - In thousands of Turkish Lira)

8. Loans and advances to customers *(continued)*

Movements in non-performing loans:

	31 December 2012	31 December 2011
Reserve at beginning of year	22,372	23,919
Provision for possible loan losses	2	113
Recoveries (*)	(518)	(1,660)
Provision, net of recoveries	(516)	(1,547)
Amount written off (*)	(21,601)	-
Reserve at end of period	**255**	**22,372**

(*) On 13 March 2012 the Bank has sold TL 22,040 thousand of its non-performing loan portfolio, for which full provision had been provided, to Nurol Holding A.Ş. with a consideration of TL 439 thousand.

Other provision expenses

	2012	2011
Specific provision expense for non-cash loans	-	1,347
Other provision expenses	**-**	**1,347**

Loans and advances to customers include the following finance lease receivables.

	2012	2011
Gross investment in finance leases, receivable:		
Less than one year	-	39
Between one and five years	-	-
	-	**39**
Unearned future income on finance leases	-	(1)
Net investment in finance leases	**-**	**38**
The net investment in finance leases comprises:		
Less than one year	-	38
Between one and four years	-	-
	-	**38**

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

The receivables are secured by way of the underlying assets.

(Currency - In thousands of Turkish Lira)

9. Property and equipment

	Office equipment	Furniture and fixtures	Other fixed assets	Total
Cost				
Balance at 1 January 2011	1,759	809	1,560	4,128
Acquisitions	116	0	147	263
Disposals	(778)	(167)	(1,201)	(2,146)
Balance at 31 December 2011	**1,097**	**642**	**506**	**2,245**
Balance at 1 January 2012	1,097	642	506	2,245
Acquisitions	415	10	9	434
Disposals	(10)	-	(17)	(27)
Balance at 31 December 2012	**1,502**	**652**	**498**	**2,652**
Depreciation				
Balance at 1 January 2011	(1,296)	(726)	(1,456)	(3,478)
Depreciation for the year	(147)	(19)	(31)	(197)
Disposals	777	167	1,132	2,076
Balance at 31 December 2011	**(666)**	**(578)**	**(355)**	**(1,599)**
Balance at 1 January 2012	(666)	(578)	(355)	(1,599)
Depreciation for the year	(213)	(17)	(33)	(263)
Disposals	8	-	-	8
Balance at 31 December 2012	**(871)**	**(595)**	**(388)**	**(1,854)**
Carrying amounts				
Balance at 31 December 2011	431	64	151	646
Balance at 31 December 2012	631	57	110	798

As of 31 December 2012 tangible assets were insured to the extent of TL 1,982 Thousand (2011 – TL 1,357) in total.

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

Motor vehicles	5 - 7 years
Office equipment, furniture and fixtures	5 - 15 years
Leased assets	shorter of 5 - 10 years and the lease term

(Currency - In thousands of Turkish Lira)

10. Intangible assets

	Software	Total
Cost		
Balance at 1 January 2011	2,816	2,816
Additions	290	290
Disposal	(376)	(376)
Balance at 31 December 2011	**2,730**	**2,730**
Balance at 1 January 2012	2,730	2,730
Additions	601	601
Disposals	-	-
Balance at 31 December 2012	**3,331**	**3,331**
Amortisation and impairment		
Balance at 1 January 2011	(2,272)	(2,272)
Amortisation charge for the year	(282)	(282)
Disposal	360	360
Balance at 31 December 2011	**(2,194)**	**(2,194)**
Balance at 1 January 2012	(2,194)	(2,194)
Amortisation charge for the year	(324)	(324)
Disposals	-	-
Balance at 31 December 2012	**(2,518)**	**(2,518)**
Carrying amounts		
Balance at 31 December 2011	536	536
Balance at 31 December 2012	813	813

(Currency - In thousands of Turkish Lira)

11. Other assets

	31 December 2012	31 December 2011
Receivables from Nurol Holding	83	-
Receivables from disposal of property (*)	14,024	16,535
Assets held for sale	1,371	1,371
Others	1,498	604
	16,976	**18,510**

(*) The Bank sold its investment property, that comprise the building (flour factory) purchased from a loan customer with a payment exceeding the receivable amount, on 7 October 2011 for USD 11,354 Thousand which includes 6% of interest and which will be paid in 96 installments amounting to USD 118 Thousand each. As of 31 December 2012 the amortised carrying value of the receivable from this disposal amounts to TL 14,024 thousand (31 December 2011: TL 16,535 thousand).

12. Funds borrowed

	31 December 2012			31 December 2011		
	TL	Foreign currency	Total	TL	Foreign Currency	Total
Funds borrowed	37,478	36,709	74,187	63,312	32,914	96,226
Obligations under repurchase agreements	50,569	-	50,569	15,734	-	15,734
	88,047	**36,709**	**124,756**	**79,046**	**32,914**	**111,960**

The effective interest rate for funds borrowed denominated in USD is 1.4% (2011 –3.1%), in EUR is 1.2% (2011 – 2.4%) and in TL is 6.4% (2011 – 6.5%). As at 31 December 2012 and 2011, funds borrowed have fixed interest rates.

As at 31 December 2012 and 2011, funds borrowed are unsecured.

The Bank has not had any defaults of principal, interest or redemption amounts or other breaches of loan covenants as at 31 December 2012 (31 December 2011 – none).

13. Other liabilities

	31 December 2012	31 December 2011
Current accounts of loan customers	8,815	1,057
Taxes and funds payable	530	369
Others	1,211	146
	10,556	**1,572**

(Currency - In thousands of Turkish Lira)

14. Provisions

	31 December 2012	31 December 2011
Employee termination benefits	684	432
Bonus accrual	300	250
Vacation pay liability	368	261
Provision for non -cash loans	1,073	1,049
Provision for lawsuits	82	140
Other	179	251
	2,686	**2,383**

The movement in bonus accrual is as follows:

	2012	2011
At 1 January	250	-
Provision provided	383	250
Bonus paid	(333)	-
At 31 December	300	250

The movement in vacation pay liability is as follows:

	2012	2011
At 1 January	261	207
Provision provided	107	54
At 31 December	368	261

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

	2012	2011
At 1 January	432	350
Service cost	284	118
Interest cost	20	16
Benefits paid	(52)	(52)
At 31 December	684	432

Employee termination benefits

In accordance with existing social legislation in Turkey, the Bank is required to make lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL full 2,731.85 and TL full 3,033.98 at 31 December 2011 and 2012, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statements as at 31 December 2012 and 2011, the Bank reflected a liability calculated based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds at the balance sheet date. The Bank used 2.34% discount rate, 4.98% inflation rate and 7.44% interest rate for provision of severance payment (31 December 2011 – discount rate: 4.66%, inflation rate: 5.10%, interest rate: 10%).

(Currency - In thousands of Turkish Lira)

15. Taxation

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

In Turkey, corporate tax rate is 20%. The tax legislation provides for a temporary tax of 20% to be calculated and paid based on earnings generated for each quarter. The amounts which are calculated and paid are offset against the final corporate tax liability for the year.

Corporate tax losses can be carried forward for a maximum period of five years following the year in which the losses were incurred. The tax authorities can inspect tax returns and the related accounting records for a retrospective maximum period of five years. Corporate tax returns are required to be filed by the twenty-fifth day of the fourth month following the year-end balance sheet date and taxes must be paid in one instalment by the end of the fourth month.

Income tax recognised in the income statement

The components of income tax expense as stated below:

	2012	2011
Current tax		
Current income tax	(443)	(218)
Deferred income / (expense) tax		
Relating to origination and reversal of temporary differences	(346)	(654)
Income tax expense reported in the income statement	**(789)**	**(872)**

Reconciliation of effective tax rate

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate for the years ended 31 December 2012 and 2011 is as follows:

	2012	2011
Profit before income tax	4,661	13,987
Income tax using the domestic corporation tax rate 20% (2011 – 20%)	(932)	(2,797)
Sales gain on available for sale and property exempt from tax	-	2,399
Disallowable expenses	(22)	(114)
Effect of investment incentive	-	59
Other	165	(419)
Total income tax expense in the profit or loss	**(789)**	**(872)**

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

	2012	2011
Deferred tax assets, net at 1 January	260	980
Deferred tax recognised in the profit or loss	(346)	(654)
Deferred income tax recognised in other comprehensive income	(2,029)	(66)
Deferred tax assets/(liabilities), net at end of the year	**(2,115)**	**260**

(Currency - In thousands of Turkish Lira)

15. Taxation *(continued)*

Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2012			2011		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Liability for employee benefits	271	-	271	189	-	189
Valuation of available for sale financial assets	-	(2,371)	(2,371)	-	(402)	(402)
Investment incentive	-	-	-	430	-	430
Other	-	(15)	(15)	43	-	43
	271	**(2,386)**	**(2,115)**	**662**	**(402)**	**260**

16. Commitments and contingencies

In the normal course of business, the Bank enters into a number of contractual commitments on behalf of its customers and is a party to financial instruments with off-balance sheet risk to meet the financing needs of its customers. These contractual commitments consist of commitments to extend credit, commercial letters of credit and standby letters of credit and guarantees. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of the conditions established in the contract. Commercial letters of credit ensure payment by a bank to a third party for a customer's foreign or domestic trade transactions, generally to finance a commercial contract for the shipment of goods. Standby letters of credit and financial guarantees are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. All of these arrangements are related to the normal lending activities of the Bank. The Bank's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and commercial and standby letters of credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

As at 31 December 2012 and 2011; commitments and contingencies comprised the following:

	2012	**2011**
Letters of guarantee	366,967	344,929
Letters of credit	15,334	11,201
Bank acceptance	6,027	-
Other commitments	290	230
Total	**388,618**	**356,360**

(Currency - In thousands of Turkish Lira)

17. Share capital and reserves

Share capital

As at 31 December 2012 and 2011, the composition of shareholders and their respective percentage of ownership are summarised as follows:

	2012		2011	
	Amount	**%**	**Amount**	**%**
Nurol Holding AŞ	35,169	78	35,171	78
Nurol İnşaat ve Tic. AŞ	7,180	16	7,182	16
Nurol Otelcilik ve Turizm İşletmeciliği AŞ	395	1	397	1
Others	2,256	5	2,250	5
Total	**45,000**		**45,000**	

As at 31 December 2012 and 2011, the authorised share capital comprised of 45,000 ordinary shares having a par value of TL full 1,000. All issued shares are paid.

Adjustment to share capital represents the restatement of paid-in capital in accordance with inflation accounting.

In accordance with the resolution of Board of Directors dated 4 March 2008, adjustment to share capital was offset against the accumulated loss.

Legal reserves

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

As at 31 December 2012, the Bank's legal reserves amounted to TL 988 Thousand (2011 – TL 664 Thousand).

Available-for-sale reserve

The available-for-sale reserve includes the cumulative net change in the fair value of available-for-sale available for sale investments until the investment is derecognised or impaired.

Movement in available-for-sale reserve is as follows:

At 1 January 2011	5,527
Net change in fair value of available-for-sale financial assets	1,934
At 31 December 2011	**7,461**
At 1 January 2012	7,461
Change in fair value of available-for-sale financial assets (net of tax)	37,710
At 31 December 2012	**45,171**

(Currency - In thousands of Turkish Lira)

18. Net interest income

	2012	2011
Interest income		
Loans and advances to customers	16,808	9,206
Deposits with banks and other financial institutions	315	560
Held for trading and available for sale investments	2,112	1,490
Financial leases	3	21
Other	859	249
	20,097	**11,526**
Interest expense		
Funds borrowed	7,077	4,836
Interbank funds borrowed	871	742
	7,948	**5,578**
Net interest income	**12,149**	**5,948**

19. Net fee and commission income

	2012	2011
Fee and commission income		
Non-cash loans	2,663	2,203
Other	877	863
Total fee and commission income	**3,540**	**3,066**
Fee and commission expense		
Non-cash loans	572	500
Other	295	251
Total fee and commission expense	**867**	**751**
Net fee and commission income	**2,673**	**2,315**

20. Net trading income / (loss)

	2012	2011
Gain / (loss) on foreign exchange rate fluctuations	715	934
Gain / (loss) from securities	1,346	1,988
Gain / (loss) on derivatives	(803)	(1,058)
Total	**1,258**	**1,864**

(Currency - In thousands of Turkish Lira)

21. Other operating income

	2012	2011
Rent income	-	265
Communication income	44	57
Gain on disposal of investment property	-	6,235
Gain on disposal of Nurol International B.V (Note -3.19)	-	7,092
Other	316	393
Total	**360**	**14,042**

22. Personnel expenses

	2012	2011
Wages and salaries	3,607	2,825
Compulsory social security obligations	606	512
Other fringe benefits	4	4
Other benefits	1,118	792
Total	**5,335**	**4,133**

23. Administrative expenses

	2012	2011
Subscription fees	1,600	1,388
Rent expenses	565	601
Telecommunication expenses	630	565
Audit and advisory expenses	708	254
Notary expenses	483	483
Computer expenses	612	328
Maintenance expenses	166	178
Transportation expenses	191	166
Taxes and duties expenses	707	707
Office supplies	57	48
Hosting expenses	62	46
Advertising expenses	28	10
Other various administrative expenses	540	669
Total	**6,349**	**5,443**

24. Financial risk management objectives and policies

a) Introduction and overview

The Bank has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risks
- operational risks

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

The Bank's risk approach is to achieve sound and sustainable low risk profile, through the identification, the measurement and the monitoring of all types of risks inherent in the nature of the business activities. The main principle of the Bank is to manage the credit risk effectively and to eliminate the other types of risk by not carrying positions.

In the course of its normal operations, the Bank is exposed to a number of risks such as credit risk, liquidity risk, market risk and operational risk. The Bank's risk policy can be summarised as:

- well managing the credit risk through a high standardised credit risk management
- eliminating liquidity risk
- minimising market risk

In accordance with the Bank's general risk management strategy; the Bank aims to eliminate and hedge its currency, interest rate and maturity positions that might create liquidity or market risk to the Bank. Additionally, in order to minimise the market risk, marketable securities portfolio is limited proportional to the total assets size.

Board of Directors is the highest authority to set all risk management guidelines, and it is responsible for ensuring that the Bank implements all necessary risk management techniques in compliance with the related regulatory requirements in Turkey.

All risk levels are set and approved by the Board of Directors on a regularly basis, and it is announced to the organization.

The Bank manages its exposure to all types of risks through the Asset and Liability Committee, comprising members of senior management, and a representative of main shareholder.

In summary, in order not to be exposed to any liquidity, interest rate, market and foreign currency risk, the Bank always keeps its funding structure in line with the asset structure (in terms of currency, maturity and interest rate) and hedges its positions through various derivative transactions. In addition to that, the Bank does not take any speculative positions on currency, interest rate and maturity that might create any liquidity or market risk to the Bank.

(Currency - In thousands of Turkish Lira)

24. Financial risk management objectives and policies *(continued)*

b) Credit risk

Credit risk represents the risk arising from the counter party's not fulfilling its responsibilities stated in the agreement either partially or totally. Credit Risk Management Committee is responsible for managing credit risk at the Bank.

Total amount of credits granted to a group is subject to certain credit risk limits. According to the decision taken by the Board of Directors, the maximum amount of the loan to be granted to a group (cash and non-cash) is limited with the calculation of certain percentages of the shareholders' equity based on the rating of the group. Furthermore, concentration risk is monitored on monthly basis in terms of industry, rating by risk group and customer.

The credibility of the debtors of the Bank is assessed periodically. Loan limits of the loan customers are revised periodically in line with the Bank's procedures. The Bank analyses the credibility of the loans within the framework of its loan policies and obtains collaterals for loans and other receivables.

The restructured and rescheduled loans are evaluated in the Bank's current rating system besides the follow up method determined in the related regulation.

Credit risk by risk groups

	Individual	Corporate	Leasing	Total
2012				
Performing loans	377	150,027	-	150,404
Loans under close monitoring	6	-	-	6
Non-performing loans	2	419	-	421
Gross	**385**	**150,446**	**-**	**150,831**
Reserve for possible loan losses	(2)	(253)	-	(255)
Total	**383**	**150,193**	**-**	**150,576**
2011				
Performing loans	408	115,636	38	116,082
Loans under close monitoring	-	600	-	600
Non-performing loans	3	22,610	-	22,613
Gross	**411**	**138,846**	**38**	**139,295**
Reserve for possible loan losses	-	(22,372)	-	(22,372)
Total	**411**	**116,474**	**38**	**116,923**

(Currency - In thousands of Turkish Lira)

24. Financial risk management objectives and policies *(continued)*

b) Credit risk *(continued)*

Exposure to credit risk

		Due from banks		Loans and advances to customers	
At 31 December	*Notes*	**2012**	**2011**	**2012**	**2011**
Carrying amount		**12,849**	**11,620**	**150,576**	**116,923**
Individually impaired					
- Non-performing financial assets		-	-	421	22,613
Gross amount		**-**	**-**	**421**	**22,613**
Reserve for possible loan losses	*8*	-	-	(255)	(22,372)
Carrying amount		**-**	**-**	**166**	**241**
Past due but not impaired		-	-	-	-
Carrying amount		**-**	**-**	**-**	**-**
Neither past due nor impaired		12,849	11,620	150,404	116,082
Carrying amount		**12,849**	**11,620**	**150,404**	**116,082**
Includes account with renegotiated terms		-	-	6	600
Carrying amount		**-**	**-**	**6**	**600**
Carrying amount (amortised cost)	*4, 8*	**12,849**	**11,620**	**150,576**	**116,923**

Impaired loans and advances

Individually impaired loans are loans and advances for which the Bank determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loan.

Past due but not impaired loans

Past due but not impaired loans are those for which contractual interest or principal payments are past due, but the Bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Bank.

24. Financial risk management objectives and policies *(continued)*

b) Credit risk *(continued)*

Exposure to credit risk (continued)

Reserve for possible loan losses

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

The Bank establishes an allowance for impairment losses on assets carried at amortised cost that represents its estimate of incurred losses in its loan portfolio.

Write-off policy

The Bank writes off a loan balance and any related allowances for impairment losses, when Bank position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not sufficient to pay back the entire exposure.

Collateral policy

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

(Currency - In thousands of Turkish Lira)

24. Financial risk management objectives and policies *(continued)*

b) Credit risk *(continued)*

Collateral policy (continued)

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

Cash loans	**31 December 2012**	**31 December 2011**
Secured cash loans	63,724	69,762
Secured by cash collateral	-	-
Personal guarantees	*35,204*	*47,787*
Secured by mortgages	*122*	*137*
Secured by customer cheques & acts	*28,398*	*21,800*
Leasing	-	*38*
Non-secured cash loans	85,822	46,000
Accrued interest income on loans	864	920
Total performing cash loans	**150,410**	**116,682**

Non-cash loans[1]	**31 December 2012**	**31 December 2011**
Secured non-cash loans	132,343	152,449
Personal guarantees	*131,507*	*152,120*
Secured by cash collateral	*796*	*329*
Secured by customer cheques & acts	*40*	-
Non-secured non cash loans	234,624	203,883
Total non-cash loans	**366,967**	**356,332**

(1) Other commitments, letters of credit and bank acceptances are not included.

(Currency - In thousands of Turkish Lira)

24. Financial risk management objectives and policies *(continued)*

b) Credit risk *(continued)*

Segment concentration

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from due from banks and loans and advances to customers at the reporting date is shown below:

	Due from banks		Loans and advances to customers	
	2012	2011	2012	2011
Banks	12,849	11,620	-	-
Manufacturing	-	-	13,514	10,730
Mining	-	-	-	-
Production	-	-	*13,514*	*10,730*
Natural resources	-	-	-	-
Construction	-	-	63,118	42,940
Services	-	-	72,694	58,869
Wholesale and retail trade	-	-	*22,026*	*22,037*
Hotel, food and beverage services	-	-	*2,598*	-
Financial institutions	-	-	*2,462*	*33,044*
Educational services	-	-	-	*19*
Health and social services	-	-	-	*847*
Renting Service			*45,608*	*2,922*
Other	-	-	*1,084*	4,143
Non-performing loans, net	-	-	166	241
Total	**12,849**	**11,620**	**150,576**	**116,923**

Concentration risk by location

		Due from banks		Loans and advances to customers	
	Notes	2012	2011	2012	2011
Turkey		8,130	155	147,171	112,659
Europe		4,683	1,809	-	-
Other		36	9,656	3,405	4,264
	4, 8	**12,849**	**11,620**	**150,576**	**116,923**

Held for trading investments

At 31 December 2012, the Bank has held for trading investments amounting to TL 8,068 Thousand (2011 – TL 5,866 Thousand). An analysis of the credit quality of the maximum credit exposure is as follows:

	Note	2012	2011
Government bonds and treasury bills	*6*	8,068	5,866
Fair value and carrying amount		**8,068**	**5,866**

(Currency - In thousands of Turkish Lira)

24. Financial risk management objectives and policies *(continued)*

c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk is a substantial risk in the Turkish market, which exhibits significant volatility.

Management of liquidity risk

In order to manage this risk, the Bank measures and manages its cash flow commitments on a daily basis and maintains liquid assets, which it judges sufficient to meet its commitments.

The calculation method used to measure the banks compliance with the liquidity limit is set by Banking Regulatory and Supervision Agency ("BRSA"). In November 2006, BRSA issued a new communiqué on the measurement of liquidity adequacy of the banks. This new legislation requires the banks to meet 80% liquidity ratio of foreign currency assets/liabilities and 100% liquidity ratio of total assets/liabilities based on arithmetic average computations on a weekly and monthly basis effective from 1 June 2007. The Bank's liquidity ratios in 2012 and 2011 are as follows:

	First maturity bracket (weekly)		Second maturity bracket (monthly)	
	Foreign currency (%)	Total (%)	Foreign currency (%)	Total (%)
2012 average	202	185	152	144
2011 average	224	180	190	154

As at 31 December 2012 and 31 December 2011, the following table provides the contractual maturities of the Bank's financial liabilities.

31 December 2012

	Carrying Amount	Contractual cash flows	6 month or less	6 to 12 months	1 to 2 years	2 to 5 years	more than 5 Years
Funds borrowed	124,756	125,435	116,079	9,356	-	-	-
	124,756	**125,435**	**116,079**	**9,356**	-	-	-

31 December 2011

	Carrying Amount	Contractual cash flows	6 month or less	6 to 12 months	1 to 2 years	2 to 5 years	more than 5 Years
Funds borrowed	111,960	122,609	90,913	25,429	6,267	-	-
	111,960	**122,609**	**90,913**	**25,429**	**6,267**	-	-

(Currency - In thousands of Turkish Lira)

24. Financial risk management objectives and policies *(continued)*

c) Liquidity risk *(continued)*

Exposure to liquidity risk

The calculation method used to measure the Bank's compliance with the liquidity limit is set by BRSA.

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

31 December 2012	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Unidentified maturity	Total
Cash and cash equivalents	5,992	8,065	-	-	-	-	-	14,057
Reserve deposits at Central Bank	-	5,225	-	-	-	-	-	5,225
Held for trading investments	-	-	-	5,946	2,122	-	-	8,068
Available for sale investments	-	-	-	5,700	1,554	-	49,634	56,888
Loans and advances to customers	-	6,872	9,011	97,304	34,844	2,379	166	150,576
Other assets	-	167	334	1,505	8,191	3,343	3,436	16,976
Total assets	**5,992**	**20,329**	**9,345**	**110,455**	**46,711**	**5,722**	**53,236**	**251,790**
Funds borrowed	-	99,221	16,607	8,928	-	-	-	124,756
Other liabilities	10,691	-	-	-	-	-	-	10,691
Derivative Financial Instruments	-	48	-	-	-	-	-	48
Total liabilities	**10,691**	**99,269**	**16,607**	**8,928**	**-**	**-**	**-**	**135,495**
Liquidity gap	**(4,699)**	**(78,940)**	**(7,262)**	**101,527**	**46,711**	**5,722**	**53,236**	**116,295**

31 December 2011	Demand	Less than one month	1-3 months	3-12 months	1-5 years	Over 5 years	Unidentified maturity	Total
Cash and cash equivalents	4,746	8,856	-	-	-	-	-	13,602
Reserve deposits at Central Bank	-	3,727	-	-	-	-	-	3,727
Held for trading investments	-	-	-	-	5,866	-	-	5,866
Available for sale investments	-	-	-	12,082	5,271	-	10,361	27,714
Loans and advances to customers	-	17	635	87,211	28,652	-	408	116,923
Other assets	-	178	356	1,600	8,534	5,867	1,975	18,510
Total assets	**4,746**	**12,778**	**991**	**100,893**	**48,323**	**5,867**	**12,744**	**186,342**
Funds borrowed	-	65,711	17,693	23,144	5,412	-	-	111,960
Other liabilities	1,057	-	-	-	-	-	733	1,790
Derivative Financial Instruments	-	176	-	-	-	-	-	176
Total liabilities	**1,057**	**65,887**	**17,693**	**23,144**	**5,412**	**-**	**733**	**113,926**
Liquidity gap	**3,689**	**(53,109)**	**(16,702)**	**77,749**	**42,911**	**5,867**	**12,011**	**72,416**

(Currency - In thousands of Turkish Lira)

24. Financial risk management objectives and policies *(continued)*

d) Market risk

Market risk is the risk that changes in market prices such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the Bank's income or the value of its holdings of financial instruments.

The Board of Directors of the Bank determines the risk limits for primary risks carried by the Bank and periodically revises these limits. For the purpose of hedging market risk, the Bank primarily aims to balance the foreign currency position, collateralise the loans and manage liquidity.

The market risk arising from trading portfolio is monitored, measured and reported using Standardised Approach to the legal legislation. The monthly market risk report and the weekly currency risk reports prepared using Standardised Approach are reported to BRSA. The Bank's value at market risks as at 31 December 2012 calculated as per the statutory financial statements prepared for BRSA reporting purposes within the scope of "Regulation on Measurement and Assessment of Capital Adequacy Ratios of Banks" published in Official Gazette no. 28337 dated 28 June 2012, are as follows:

	2012			2011		
	Average	Highest	Lowest	Average	Highest	Lowest
Interest rate risk	37	50	-	290	816	75
Equity price risk	-	-	-	1,843	2,472	1,186
Currency risk	385	657	306	409	764	265
Counter party risk	4	14	1	-	-	-
Total value-at-risk	**426**	**721**	**307**	**2,542**	**4,052**	**1,526**

(Currency - In thousands of Turkish Lira)

24. Financial risk management objectives and policies *(continued)*

d) Market risk *(continued)*

Currency risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Foreign currency risk indicates the possibility of the potential losses that the Bank is subject to due to the exchange rate movements in the market.

Position limit of the Bank related with currency risk is determined according to Foreign Currency Net Position Standard ratio determined by BRSA.

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

	USD	Euro	JPY	Others	Total
2012					
Assets					
Cash and cash equivalents	4,248	5,535	-	83	9,866
Reserve deposits at Central Bank	1,338	2,469	-	-	3,807
Loans and advances to customers	14,922	-	-	-	14,922
Available for sale investments	-	-	-	-	-
Other assets	14,021	-	-	-	14,021
Total assets	**34,529**	**8,004**	**-**	**83**	**42,616**
Liabilities					
Funds borrowed	23,592	13,117	-	-	36,709
Other liabilities	1,839	1,634	-	17	3,490
Total liabilities	**25,431**	**14,751**	**-**	**17**	**40,199**
Gross exposure	**9,098**	**(6,747)**	**-**	**66**	**2,417**
Off-balance sheet position					
Net notional amount of derivatives	-	4,703	-	-	4,703
Net exposure	**9,098**	**(2,044)**	**-**	**66**	**7,120**

(Currency - In thousands of Turkish Lira)

24. Financial risk management objectives and policies *(continued)*

d) Market risk *(continued)*

Currency risk (continued)

	USD	Euro	JPY	Others	Total
2011					
Assets					
Cash and cash equivalents	887	1,840	12	116	2,855
Reserve deposits at Central Bank	1,338	2,469	-	-	3,807
Loans and advances to customers	7,534	-	-	-	7,534
Available for sale investments	933	-	-	-	933
Other assets	16,535	38	-	-	16,573
Total assets	**27,227**	**4,347**	**12**	**116**	**31,702**
Liabilities					
Funds borrowed	20,397	12,526	-	-	32,923
Other liabilities	382	55	-	17	454
Total liabilities	**20,779**	**12,581**	**-**	**17**	**33,377**
Gross exposure	**6,448**	**(8,234)**	**12**	**99**	**(1,675)**
Off-balance sheet position					
Net notional amount of derivatives	5,655	5,861	-	-	11,516
Net exposure	**12,103**	**(2,373)**	**12**	**99**	**9,841**

(Currency - In thousands of Turkish Lira)

24. Financial risk management objectives and policies *(continued)*

d) Market risk *(continued)*

Currency risk (continued)

Sensitivity analysis

A 10 percent weakening of TL against the foreign currencies at 31 December 2012 and 2011 would have effect on the equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2012.

Unlisted foreign currency equity instrument is not included in the sensitivity analysis as of 31 December 2011.

2012	**Equity**	**Profit or loss**
EUR	(204)	(204)
USD	910	910
Other currencies	7	7
	713	**713**

2011	**Equity**	**Profit or loss**
EUR	(237)	(237)
USD	1,210	1,210
Other currencies	11	11
	984	**984**

A 10 percent strengthening of the TL against the foreign currencies at 31 December 2012 and 2011 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

Interest rate risk that would arise from the changes in interest rates depending on the Bank's position is managed by the Asset and Liability Committee of the Bank.

Interest rate sensitivity of assets, liabilities and off balance sheet items is analysed by top management in the Asset and Liability Committee meetings held every week by taking the market developments into consideration.

The Management of the Bank follows the interest rates in the market on a daily basis and revises interest rates of the Bank when necessary.

(Currency - In thousands of Turkish Lira)

24. Financial risk management objectives and policies *(continued)*

d) Market risk *(continued)*

Interest rate risk (continued)

The following table indicates the periods in which financial assets and liabilities reprice as of 31 December 2012 and 2011:

	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non interest bearing	Total
As at 31 December 2012							
Assets							
Cash and cash equivalents	8,065	-	-	-	-	5,992	14,057
Reserve deposits at Central Bank	-	-	-	-	-	5,225	5,225
Held for trading investments	-	5,946	-	2,122	-	-	8,068
Available for sale investments	1,276	3,528	2,450	-	-	49,634	56,888
Loans and advances to customers	6,872	47,477	92,467	1,215	2,379	166	150,576
Other	167	334	1,505	8,191	3,343	5,047	18,587
Total assets	**16,380**	**57,285**	**96,422**	**11,528**	**5,722**	**66,064**	**253,401**
Liabilities							
Funds borrowed	99,221	16,607	8,928	-	-	-	124,756
Current account of loans customers[(1)]	-	-	-	-	-	8,922	8,922
Other	-	-	-	-	-	119,723	119,723
Total liabilities	**99,221**	**16,607**	**8,928**	**-**	**-**	**128,645**	**253,401**
On balance sheet interest sensitivity gap	(82,841)	40,678	87,494	11,528	5,722	(62,581)	-
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-
Total interest sensitivity gap	**(82,841)**	**40,678**	**87,494**	**11,528**	**5,722**	**(62,581)**	**-**

[(1)] included in other liabilities

(Currency - In thousands of Turkish Lira)

24. Financial risk management objectives and policies *(continued)*

d) Market risk *(continued)*

Interest rate risk (continued)

	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Non interest bearing	Total
As at 31 December 2011							
Assets							
Cash and cash equivalents	8,856	-	-	-	-	4,746	13,602
Reserve deposits at Central Bank	-	-	-	-	-	3,727	3,727
Held for trading investments	-	5,866	-	-	-	-	5,866
Available for sale investments	934	5,958	9,133	1,328	-	10,361	27,714
Loans and advances to customers	17	635	87,211	28,652	-	408	116,923
Other	178	356	1,600	8,534	5,867	3,417	19,952
Total assets	**9,985**	**12,815**	**97,944**	**38,514**	**5,867**	**22,659**	**187,784**
Liabilities							
Funds borrowed	65,711	17,693	23,144	5,412	-	-	111,960
Current account of loans customers[1]	-	-	-	-	-	1,057	1,057
Other	-	-	-	-	-	74,767	74,767
Total liabilities	**65,711**	**17,693**	**23,144**	**5,412**	**-**	**75,824**	**187,784**
On balance sheet interest sensitivity gap	(55,726)	(4,878)	74,800	33,102	5,867	(53,165)	-
Off balance sheet interest sensitivity gap	-	-	-	-	-	-	-
Total interest sensitivity gap	**(55,726)**	**(4,878)**	**74,800**	**33,102**	**5,867**	**(53,165)**	**-**

(1) Included in other liabilities.

(Currency - In thousands of Turkish Lira)

24. Financial risk management objectives and policies *(continued)*

d) Market risk *(continued)*

Exposure to interest rate risk sensitivity

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income based on the floating rate non-trading financial assets and financial liabilities and trading financial assets and liabilities held at 31 December 2012 and 2011. The sensitivity of equity is calculated by revaluing available for sale financial assets at 31 December 2012 and 2011 for the effects of the assumed changes in interest rates. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

2012	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Financial assets designated at fair value through profit or loss	(44)	45	(44)	45
Available for sale financial assets	-	-	(14)	14
Floating rate financial assets	1,092	(1,098)	1,092	(1,098)
	-	-	-	-
Total, net	1,048	(1,053)	1,034	(1,039)

2011	Profit or loss		Equity	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Financial assets designated at fair value through profit or loss	(60)	61	(60)	61
Available for sale financial assets	-	-	(110)	114
Floating rate financial assets	647	(651)	647	(651)
Total, net	**587**	**(590)**	477	(476)

(Currency - In thousands of Turkish Lira)

24. Financial risk management objectives and policies *(continued)*

d) Market risk *(continued)*

Interest rate risk (continued)

Summary of average interest rates

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

	2012			2011		
	Euro	**USD**	**TL**	**Euro**	**USD**	**TL**
Assets						
Cash and balances with the Central Bank	-	-	-	-	-	-
Due from banks	0.27	0.29	9.79	0.72	0.43	7.90
Held for trading investments	-	-	11.47	-	-	12.00
Available for sale financial assets	-	5.20	9.62	-	5.30	10.81
Loans and advances to customers	-	7.50	12.30	-	7.61	13.81
Other asset	-	6.00	-	-	6.00	-
Liabilities						
Other money market deposits	-	-	6.57	-	-	8.82
Funds borrowed	1.38	1.93	6.09	2.43	3.15	6.52

e) Operational risk

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

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

The Bank calculated the value at operational risk in accordance with the "Computation of Value of Operational Risk" of the circular, "Regulation Regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette dated 1 November 2006, using gross profit of the last three years, 2009, 2010 and 2011. The amount calculated as TL 19,003 as at 31 December 2012 (31 December 2011 – TL 19,379) represents the operational risk that the Bank may expose and the amount of minimum capital requirement to eliminate this risk.

(Currency - In thousands of Turkish Lira)

24. Financial risk management objectives and policies *(continued)*

f) Capital management

BRSA, the regulator body of the banking industry, sets and monitors capital requirements for the Bank. In implementing current capital requirements, BRSA requires the banks to maintain a prescribed ratio of minimum 8% of total capital to total risk-weighted assets.

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, capital is composed of the total amount of paid up capital, legal, voluntary and extra reserves, profits for the period after tax provisions and profits for previous years. The total amount of banks' losses for the period and losses for previous years is taken into account as a deduction item, in the calculation of Tier 1 capital.
- Tier 2 capital, is composed of the total amount of general provisions for credits, fixed assets revaluation fund, revaluation of available-for-sale financial assets and equity investments, subordinated loans received, free reserves set aside for contingencies and the fund for increase in the value of securities.

Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. Operational risk capital requirement is calculated using Basic Indicator Approach and included in the capital adequacy calculations.

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

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

There have been no material changes in the Bank's management of capital during the period.

The Bank's capital position at 31 December 2012 and 2011 is as follows:

	2012	2011
Amount subject to credit risk (I)	410,550	308,404
Amount subject to market risk (II)	4,750	29,975
Amount subject to operational risk (III)	19,000	19,379
Total risk-weighted assets and value at market risk and operational risk (IV) = (I+II+II)	**434,300**	**357,758**
Shareholders' equity:		
Tier 1 capital	58,949	55,941
Tier 2 capital	23,599	5,684
Total regulatory capital	**82,548**	**61,625**
Capital adequacy ratio	**19.01%**	**17.23%**

(Currency - In thousands of Turkish Lira)

24. Financial risk management objectives and policies *(continued)*

g) Fair values

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets or valuation techniques. However, the Bank expects no significant difference between the fair value and carrying value of the financial instruments below since their maturities are short-term.

The table below sets out the Bank's classification of each class of financial assets and liabilities and their fair values.

	Notes	Trading	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value
2012							
Cash and cash equivalents	*4*	14,057	-	-	-	14,057	14,057
Reserve deposits at Central Bank	*5*	-	5,225	-	-	5,225	5,225
Held for trading investments	*6*	8,068	-	-	-	8,068	8,068
Available for sale investments	*7*	-	-	56,888	-	56,888	56,888
Loans and advances to customers(2)	*8*	-	150,576	-	-	150,576	150,576
Other asset		-	-	-	14,022	14,022	14,022
		22,125	155,801	56,888	14,022	248,836	248,836
Funds borrowed(2)	*12*	-	-	-	124,756	124,756	124,756
Current account of loan customers(1)	*13*	-	-	-	8,922	8,922	8,922
		-	-	-	133,678	133,678	133,678

(1) Included in other liabilities.

(2) The Bank management assumes that the fair values of the loans and funds borrowed approximate their carrying values since the majority of them are short-term.

	Notes	Trading	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair value
2011							
Cash and cash equivalents	*4*	13,602	-	-	-	13,602	13,602
Reserve deposits at Central Bank	*5*	-	3,727	-	-	3,727	3,727
Held for trading investments	*6*	5,866	-	-	-	5,866	5,866
Available for sale investments	*7*	-	-	27,714	-	27,714	27,714
Loans and advances to customers(2)	*8*	-	116,923	-	-	116,923	116,995
Other Asset	*8*	-	-	-	16,535	16,535	16,535
		19,468	120,650	27,714	16,535	184,367	184,439
Funds borrowed(2)	*12*	-	-	-	111,960	111,960	111,857
Current account of loan customers(1)	*13*	-	-	-	1,057	1,057	1,057
		-	-	-	113,017	113,017	112,914

(1) Included in other liabilities.

(2) The Bank management assumes that the fair values of the loans and funds borrowed approximate their carrying values since the majority of them are short-term.

Loans and advances to customers

Loans and advances to customers are net of provisions for impairment. The estimated fair value of loans and advances to customers 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.

(Currency - In thousands of Turkish Lira)

24. Financial risk management objectives and policies *(continued)*

g) Fair values *(continued)*

Fair values of remaining financial assets and liabilities carried at cost, including cash and cash equivalents, reserve deposits at Central Bank, current account of loan customers and funds borrowed are considered to approximate their respective carrying values due to their short-term nature.

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

Level 1: Quoted market price (unadjusted) in an active market for identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments using valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation.

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

Valuation techniques include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like forwards and currency swaps, that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt securities. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.This table below analyses financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

2012	*Note*	**Level 1**	**Level 2**	**Level 3**	**Total**
Held for trading investments	6	8,068	-	-	8,068
Available for sale investments	7	56,888	-	-	56,888
Derivative financial liabilities held for trading		-	(48)	-	(48)
		64,956	**(48)**	**-**	**64,908**

2011	*Note*	**Level 1**	**Level 2**	**Level 3**	**Total**
Held for trading investments	6	5,866	-	-	5,866
Available for sale investments	7	27,714	-	-	27,714
Derivative financial liabilities held for trading		-	(176)	-	(176)
		33,580	**(176)**	**-**	**(33,404)**

(Currency - In thousands of Turkish Lira)

25. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making the financial and operating decisions.

In the course of conducting its banking business, the Bank conducted various business transactions with related parties. These include loans, customer accounts, funds borrowed and non-cash transactions. These are all commercial transactions and realised on an arms-length basis. The volumes of related party transactions, outstanding balances at year-end and relating expense and income for the year are as follows:

2012	Balance	Percentage of the financial statement amount (%)
Cash loans	80,335	53%
Non-cash loans	247,301	64%
Funds borrowed / Current accounts of loan customers	21,686	17%

2011	Balance	Percentage of the financial statement amount (%)
Cash loans	46,433	40%
Non-cash loans	187,875	53%
Funds borrowed / Current accounts of loan customers	13,509	12%

As at 31 December 2012, no provisions have been recognised in respect of loans given to related parties (2011 – none).

Interest and commission income from related parties for the year ended 31 December 2012 amount to TL 8,919 for cash loans and TL 1,448 for non-cash loans (2011: TL 4,995 for cash loans and TL 2,631 for non-cash loans).

Compensation of key management personnel of the Bank

The executive and non-executive member of Board of Directors and management received remuneration and fees amounted to TL 1,173 (2011 – TL 958) comprising salaries and other benefits.

26. Events after balance sheet date

On 24 January 2013, the Bank has issued bonds amounting to TL 100,000,000 nominal value, which has 728 days maturity and variable coupon payment, though sales method to qualified investors.