GSD Yatırım Bankası Anonim Şirketi

Financial Statements As at and for the Year Ended December 31, 2013 Together With Independent Auditors' Report

GSD Yatırım Bankası Anonim Şirketi

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Independent Auditors' Report

To the Board of Directors of
GSD Yatırım Bankası Anonim Şirketi;

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

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these 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

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 about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the 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 principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matter

The financial statements of the bank as at and for the year ended December 31, 2012 were audited by another auditor, who expressed an audit report with an unqualified opinion on those statements on April 9, 2013.

Güney Bağımsız Denetim ve Serbest Muhasebeci Mali Müşavirlik Anonim Şirketi
A member firm of Ernst & Young Global Limited

Fatma Ebru Yücel, SMMM
Partner

August 8, 2014
Istanbul

GSD Yatırım Bankası AŞ

Statement of Financial Position
As at 31 December 2013
(Currency -Thousands of Turkish Lira (TL))

	Notes	**2013**	**2012**
Assets			
Cash and balances with Central Bank	*12*	1,130	289
Due from banks	*13*	154	82
Trading securities	*14*	284	-
Investment Securities	*15*	160	-
Available for Sale Investments		*160*	-
Derivative financial instruments	*16*	78	22
Loans and advances to customers	*17*	121,989	102,965
Tangible assets	*18*	53	55
Intangible assets	*19*	69	60
Deferred tax assets	*20*	543	392
Other assets	*21*	4,800	6,408
Total assets		**129,260**	**110,273**
Liabilities			
Derivative financial instruments	*16*	-	69
Obligations under repurchase agreement	*15*	160	-
Current accounts of loan customers	*22*	7,404	5,121
Funds borrowed	*23*	28,513	16,149
Provisions	*24*	828	891
Income taxes payable	*11*	343	221
Other liabilities	*25*	5,747	6,784
Total liabilities		**42,995**	**29,235**
Shareholders' equity			
Share capital	*26*	50,000	50,000
Adjustment to share capital	*26*	2,713	2,713
Retained earnings		33,552	28,325
Total equity		**86,265**	**81,038**
Total liabilities and equity		**129,260**	**110,273**
Commitments and contingencies	*28*		

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

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GSD Yatırım Bankası AŞ

Statement of Comprehensive Income
For the year ended 31 December 2013
(Currency -Thousands of Turkish Lira (TL))

	Notes	2013	2012
Interest income			
Interest on loans and advances to customers		12,209	16,929
Interest on securities		5	43
Interest on deposits with banks and other financial institutions		-	19
Total interest income		**12,214**	**16,991**
Interest expense			
Interest on funds borrowed and other money market deposits		(980)	(1,175)
Interest on current accounts of loan customers		(395)	(1,866)
Interest on other money market placements		(4)	-
Total interest expense		**(1,379)**	**(3,041)**
Net interest income		**10,835**	**13,950**
Fees and commission income	7	3,695	1,164
Fees and commission expense	7	(89)	(76)
Net fee and commission income		**3,606**	**1,088**
Net trading gains/(loss)	8	468	(1,717)
Foreign exchange gains/(loss), net		(761)	606
Other operating income		720	315
		427	**(796)**
Operating income		**14,868**	**14,242**
Net impairment gain / (loss) on financial assets		(842)	330
Personnel expenses	9	(3,955)	(3,930)
Depreciation and amortisation		(22)	(37)
Other operating expenses	10	(3,497)	(2,984)
Profit before income tax		**6,552**	**7,621**
Income tax – current	11	(1,476)	(1,587)
Income tax – deferred	11	151	53
Net profit for the year		**5,227**	**6,087**
Other comprehensive income		-	-
Other comprehensive income for the year		-	-
Total comprehensive income for the year		**5,227**	**6,087**

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

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(Currency -Thousands of Turkish Lira (TL))

	Share capital	Adjustment to Share capital	Fair Value Reserve	Retained Earnings	Total
Balance at 1 January 2012	**50,000**	**2,713**	-	**22,238**	**74,951**
Total comprehensive income for the period					
Net profit	-	-	-	6,087	6,087
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	-	**6,087**	**6,087**
Transactions with owners, recorded directly in equity	-	-	-	-	-
Balance at 31 December 2012	**50,000**	**2,713**	-	**28,325**	**81,038**
Total comprehensive income for the period					
Net profit	-	-	-	5,227	5,227
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	-	**5,227**	**5,227**
Transactions with owners, recorded directly in equity	-	-	-	-	-
Balance at 31 December 2013	**50,000**	**2,713**	-	**33,552**	**86,265**

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

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GSD Yatırım Bankası AŞ

Statement of Cash Flows

For the year ended 31 December 2013

(Currency -Thousands of Turkish Lira (TL))

	Notes	2013	2012
Cash flows from operating activities			
Interest received		12,022	17,710
Interest paid		(1,316)	(3,521)
Fees and commissions received		3,695	1,164
Trading income		468	(1,717)
Recoveries of loans		559	654
Fees and commissions paid		(89)	(76)
Cash payments to employees		(3,736)	(3,527)
Vacation pay liability paid		(30)	(2)
Employee termination benefits paid		(44)	(26)
Cash received from other operating activities		724	350
Cash paid for other operations		(3,035)	(2,862)
Income taxes paid		(1,354)	(2,017)
Cash flows from operating activities before changes in operating assets and liabilities		**7,864**	**6,130**
Changes in operating assets and liabilities			
Trading assets		22	457
Reserve deposits at Central Bank of Turkish Republic		701	1,839
Loans and advances to customers		(21,041)	37,532
Other assets		(1,608)	(2,873)
Current account of loan customers		471	(46,060)
Other money market deposits		-	-
Funds borrowed		12,522	(374)
Other liabilities and provisions		1,310	3,346
Net cash used in operating activities		**(7,623)**	**(6,133)**
Cash flows from investing activities			
Purchases of tangible assets	*18*	(8)	(2)
Proceeds from the sale of tangible assets and intangible assets		-	-
Purchase of intangible assets	*19*	(21)	(12)
Net cash provided by / (used in) investing activities		**(29)**	**(14)**
Net change in cash and cash equivalents		212	(17)
Cash and cash equivalents at 1 January	*27*	182	199
Cash and cash equivalents at 31 December	*27*	**394**	**182**

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

1. Reporting entity

GSD Yatırım Bankası Anonim Şirketi (the "Bank'') was registered on 22 December 1998 at Turkish Trade Registry Gazette, in accordance with the decision number 98/10962 taken by the Board of Ministers on 20 April 1998. The Bank was registered as an investment bank and commenced its operations on 7 April 1999, after obtaining the necessary banking permissions from the Turkish Undersecretariat of Treasury (the "Treasury") and the Central Bank of Turkey (the "Central Bank") on 24 February 1999.

The registered office address of the Bank is Aydınevler Mah. Kaptan Rıfat Sk. No: 3 Küçükyalı 34854, Maltepe - Istanbul, Turkey.

The parent and ultimate parent of the Bank is GSD Holding AŞ ("GSD Holding") whose majority shares are publicly traded.

Nature of activities of the Bank

The Bank carries out its activities as an investment bank. The Bank's corporate services mainly include corporate lending and trade finance. In retail banking, the Bank mainly provides retail lending products such as mortgages, home equity, vehicle and consumer loans to its customers. As a non-deposit taking bank, the Bank borrows funds from financial markets.

Operational activities of the Bank as stated at its Articles of Association are as follows:

- Lending cash and non cash loans
- Providing collection and payment services, fund transfer and correspondent banking services
- Cheques and notes payable transactions
- Providing custody service
- Foreign exchange transactions
- Trading of capital market instruments, derivatives and money market instruments
- Intermediary services in money markets
- Financial lease transactions

As at 31 December 2013, the Bank provides services through its head office. As at 31 December 2013, the number of employees of the Bank is 26 (2012: 27).

2. Basis of preparation

2.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"s) as issued by the International Accounting Standards Board ("IASB").

The financial statements of the Bank were authorised for issue by the management on 9 April 2013. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

The Bank maintains its books of account and prepares its statutory financial statements in accordance with the regulations on accounting and reporting framework and accounting standards which are determined by the provisions of Turkish Banking Law and accounting standards promulgated by the other relevant laws and regulations.

The financial statements have been prepared from statutory financial statements of the Bank and its subsidiary 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 accounting policies have been consistently applied by the Bank and are consistent with those used in previous year ended 31 December 2012.

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value

2.3 Functional and presentation currency

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

The restatement for the changes in the general purchasing power of TL until 31 December 2005 is based on IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date and the corresponding figures for previous year be restated in the same terms.

IAS 29 describes characteristics that may indicate that an economy is hyperinflationary. However, it concludes that it is a matter of judgement when restatement of financial statements becomes necessary. After experiencing hyperinflation in Turkey for many years, as a result of the new economic program, which was launched in late 2001, the three-year cumulative inflation rate dropped below 100% in October 2004. Based on these considerations, restatement pursuant to IAS 29 has been applied until 31 December 2005 and Turkey ceased to be hyperinflationary effective from 1 January 2006.

2. Basis of preparation *(continued)*

2.3 Functional and presentation currency *(continued)*

Restatement of statement of financial position and statement of comprehensive income items through the use of a general price index and relevant conversion factors does not necessarily mean that the Bank could realise or settle the same values of assets and liabilities as indicated in the statement of financial position. Similarly, it does not necessarily mean that the Bank could return or settle the same values of equity to its shareholders.

2.4 Use of estimates and judgements

The preparation of the financial statements in conformity with IFRSs 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.

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 notes 4 and 5.

3. Significant accounting policies

The accounting policies set out below have been applied constantly to all periods presented in these financial statements and have been applied consistently by the Bank.

3.1 Consolidation

As at 31 December 2010, the Bank owned 100% shares of GSD International Limited ("GSD International"). The Bank has decided to liquidate its subsidiary on 27 July 2011 and liquidation procedures have been completed on 24 November 2011. GSD International applied for dissolution to the Registry of Isle of Man on 26 August 2011 and distributed its surplus assets to its only shareholder, the Bank, on 11 November 2011. The financial statements of subsidiary were included in the consolidated financial statements until November 2011. The financial statements of the subsidiary was prepared for the same reporting period as the Bank, using uniform accounting policies for like transactions and other events in similar circumstances.

Intra-group balances, and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, were eliminated in preparing the consolidated financial statements. Unrealised losses were eliminated in the same way as unrealised gains, but only to the extent that there was no evidence of impairment.

3.2 Foreign currency transactions

The financial statements are presented in TL, which is the Bank's functional and presentation currency. The Bank determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are translated into the respective functional currency of the operation at the spot exchange rate date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into the functional currency at the spot exchange rate date of the transaction.

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3. Significant accounting policies *(continued)*

3.2 Foreign currency transactions *(continued)*

The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the period. All foreign currency differences are recognised in profit or loss.

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

	EUR / TL (full)	USD / TL (full)
31 December 2011	2,4438	1,8889
31 December 2012	2,3517	1,7826
31 December 2013	2,9365	2,1343

3.3 Interest

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.

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 and expense on financial assets and liabilities at amortised cost on an effective interest rate basis
- the interest income on trading assets.

3.4 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.

3.5 Net trading income

Net trading income comprises all realised and unrealised fair value changes in derivative financial instruments.

3.6 Dividends

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

3.7 Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

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3. Significant accounting policies *(continued)*

3.8 Income tax expense

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and deferred tax liabilities are offset if there is a legally enforceable right tot offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same authority on the same taxable entity.

A deferred tax asset is recognised for unused tax loss, and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.9 Financial assets and liabilities

Recognition

The Bank initially recognises cash and balances with the Central Bank, due from banks, loans and advances to customers, current account of loan customers and funds borrowed on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

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

Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

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

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3. Significant accounting policies *(continued)*

3.9 Financial assets and liabilities *(continued)*

Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the recognised amounts and it intends to settle on a net basis or to realise the asset and settle the liability simultaneously.

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

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Fair value measurement

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

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

If a market for a financial instrument in not active, the Bank establishes fair value using a valuation technique. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models.

Identification and measurement of impairment

At each reporting date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is (are) impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows on the asset(s) that can be estimated reliably.

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristic.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following loss events:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments by more than 90 days;
- the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or

3. Significant accounting policies *(continued)*

3.9 Financial assets and liabilities *(continued)*

- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank, including:
  - adverse changes in the payment status of borrowers; or
  - national or local economic conditions that correlate with defaults on the assets in the Bank.

If there is objective evidence that an impairment loss on loans and advances carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and estimated recoverable amount. The carrying amount of the asset is reduced through use of an allowance account. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances.

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 recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of impairment loss is recognised in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date. The amount of the reversal should not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

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

3.10 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

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

3. Significant accounting policies *(continued)*

3.11 Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

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

3.12 Derivative financial instruments

The Bank enters into derivative instrument transactions including forwards, swaps and options in the foreign exchange and capital markets. Most of these derivative transactions are considered as effective economic hedges under the Bank's risk management policies; however since they do not qualify for hedge accounting under the specific provisions of IAS 39, they are treated as derivatives held for trading.

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 on 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.

3.13 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)*

3.14 Tangible assets

Recognition and measurement

The costs of the tangible assets are restated for the effects of inflation to the end of 31 December 2005, less accumulated depreciation and impairment losses. Tangible assets acquired after 31 December 2005 is reflected at cost, less accumulated depreciation and impairment losses.

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

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

Subsequent costs

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

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of tangible assets since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives.

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

Motor vehicles	5 years
Furniture and fixtures	5 – 50 years
Leased assets	shorter of 5 – 10 years and the lease term

Leasehold improvements are depreciated on a straight-line method over a period of time of their lease contract.

Depreciation methods and useful lives are reassessed at each financial year-end and adjusted if appropriate.

3. Significant accounting policies *(continued)*

3.15 Intangible assets

The costs of the intangible assets are restated for the effects of inflation to the end of 31 December 2005, less accumulated amortisation and impairment losses. Intangible assets acquired after 31 December 2005 are reflected at cost, less accumulated amortisation and impairment losses.

Intangible assets comprise purchased software.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimate useful lives of software are four to fifteen years.

Amortisation methods and useful lives are reassessed at each financial year-end and adjusted if appropriate.

3.16 Assets held for sale

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

3.17 Leases

The Bank as lessee

Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and, the leased assets are not recognised in the Bank's statement of financial position.

The Bank as lessor

Finance leases

The Bank presents leased assets as a receivable equal to the net investment in the lease. Finance income is based on a pattern reflecting a constant periodic rate of return on the net investment outstanding. Initial direct costs are included in the initial measurement of the finance lease receivable and reduce the amount of income recognised over the lease term.

3.18 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax assets, are reviewed on each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

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

3. Significant accounting policies *(continued)*

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

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.20 Deposits, current accounts of loan customers and funds borrowed

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.

3.19 Provisions

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

A provision for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

3.20 Employee benefits

(i) Employment termination benefits – defined benefit plan

Under the 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 bank reflected a liability calculated using the Projected Unit Credit Method and 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 statement of financial position date. All actuarial gains and losses are recognized in other comprehensive income.

(ii) Short-term employee benefits

The bank provided for undiscounted short-term employee benefits earned during the financial periods as per services rendered in compliance with IAS 19, "Employee benefits".

3. Significant accounting policies *(continued)*

3.21 Fiduciary assets

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

3.22 New standards and interpretations not yet adopted

The accounting policies adopted in preparation of the financial statements as at December 31, 2013 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of January 1, 2013.

The new standards, amendments and interpretations which are effective as at January 1, 2013 are as follows:

IFRS 7 Financial Instruments: Disclosures - Transfers of Financial Assets (Amended)

The amendment requires the disclosure of the rights of the entity relating to the offsetting of the financial instruments and some information about the related regulations (eg. collateral agreements). New disclosures would provide users of financial statements with information that is useful in;

i) Evaluating the effect or potential effect of netting arrangements on an entity's financial position and,
ii) Analyzing and comparing financial statements prepared in accordance with IFRSs and other generally accepted accounting standards.

New disclosures have to be provided for all the financial instruments in the balance sheet that have been offset according to IAS 32. Such disclosures are applicable to financial instruments in the balance sheet that have not been offset according to IAS 32 but are available for offsetting according to main applicable offsetting regulations or other financial instruments that are subject to a similar agreement. The amendment affects disclosures only and did not have any impact on the consolidated financial statements of the Bank. Furthermore the Bank does not have financial instruments that are offset or subject to enforceable master netting or any similar agreements that require disclosure.

IAS 1 Presentation of Financial Statements (Amended) – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change only the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time would be presented separately from items which will never be reclassified. The amendments are applied retrospectively. The amendment affects presentation only and did not have an impact on the financial position or performance of the Bank.

IAS 19 Employee Benefits (Amended)

Numerous changes or clarifications are made under the amended standard. Among these numerous amendments, the most important changes are removing the corridor mechanism, for determined benefit plans recognizing actuarial gain/(loss) under other comprehensive income and making the distinction between short-term and other long-term employee benefits based on expected timing of settlement rather than employee entitlement. The Bank used to recognize the actuarial gain and loss in profit and loss statement before this amendment.

3. Significant accounting policies (continued)

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

As retrospective application was IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine Entities are required to apply its requirements for production phase stripping costs incurred from the start of the earliest comparative period presented. The Interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. The interpretation is not applicable for the Bank and did not have any impact on the financial position or performance of the Bank.

IFRS 13 Fair Value Measurement

The new Standard provides guidance on how to measure fair value under IFRS but does not change when an entity is required to use fair value. It is a single source of guidance under IFRS for all fair value measurements. The new standard also brings new disclosure requirements for fair value measurements. The new disclosures are only required for periods beginning after IFRS 13 is adopted. The Bank has presented these disclosures in related notes.

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

Entities are required to apply its requirements for production phase stripping costs incurred from the start of the earliest comparative period presented. The Interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. The interpretation is not applicable for the Bank and did not have any impact on the financial position or performance of the Bank.

Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)

The amendments change the transition guidance to provide further relief from full retrospective application. The date of initial application is defined as 'the beginning of the annual reporting period in which IFRS 10 is applied for the first time'. The assessment of whether control exists is made at 'the date of initial application' rather than at the beginning of the comparative period. If the control assessment is different between IFRS 10 and IAS 27/SIC-12, retrospective adjustments should be determined. However, if the control assessment is the same, no retrospective application is required. If more than one comparative period is presented, additional relief is given to require only one period to be restated. For the same reasons IFRS 11 and IFRS 12 has also been amended to provide transition relief. These amendments did not have an impact on the consolidated financial statements of the Bank.

Improvements to IFRSs

Annual Improvements to IFRSs – 2009 – 2011 Cycle, which contains amendments to its standards, is effective for annual periods beginning on or after January 1, 2013. This project did not have an impact on the financial position or performance of the Bank.

IAS 16 Property, Plant and Equipment:

Clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

3. Significant accounting policies (continued)

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

IAS 32 Financial Instruments: Presentation:

Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders.

IAS 34 Financial Reporting:

Clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment. Total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual financial statements for that reportable segment.

Standards issued but not yet effective and not early adopted

Standards, interpretations and amendments to existing standards that are issued but not yet effective up to the date of issuance of the financial statements are as follows. The Bank will make the necessary changes if not indicated otherwise, which will be affecting the financial statements and disclosures, after the new standards and interpretations become in effect.

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

The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Bank is in the process of assessing the impact of the standard on financial position or performance of the Bank.

IFRS 9 Financial Instruments – Classification and Measurement

As amended in December 2011, the new standard was to be effective for annual periods beginning on or after January 1, 2015. At its February 2014 meeting, the IASB tentatively decided that the mandatory effective date of IFRS 9 will be for annual periods beginning on or after January 1, 2018. Phase 1 of this new IFRS introduces new requirements for classifying and measuring financial instruments. The amendments made to IFRS 9 will mainly affect the classification and measurement of financial assets and measurement of fair value option (FVO) liabilities and requires that the change in fair value of a FVO financial liability attributable to credit risk is presented under other comprehensive income. Early adoption is permitted. The Bank is in the process of assessing the impact of the standard on financial position or performance of the Bank.

3. Significant accounting policies (continued)

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

IFRS 9 Financial Instruments – Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39 -IFRS 9 (2013)

In November 2013, the IASB issued a new version of IFRS 9, which includes the new hedge accounting requirements and some related amendments to IAS 39 and IFRS 7. Entities may make an accounting policy choice to continue to apply the hedge accounting requirements of IAS 39 for all of their hedging relationships. The standard does not have a mandatory effective date, but it is available for application now; a new mandatory effective date will be set when the IASB completes the impairment phase of its project on the accounting for financial instruments. At its February 2014 meeting, the IASB tentatively decided that the mandatory effective date of IFRS 9 will be for annual periods beginning on or after January 1, 2018 The Bank is in the process of assessing the impact of the standard on financial position or performance of the Bank.

IFRIC Interpretation 21 Levies

The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognized before the specified minimum threshold is reached. The interpretation is effective for annual periods beginning on or after January 1, 2014, with early application permitted. Retrospective application of this interpretation is required. The Bank does not expect that this amendment will have any impact on the financial position or performance of the Bank.

IFRS 10, IFRS 12 and IAS 27 Investment Entities (Amendments)

In October 2012 IFRS 10 was amended by Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27), which defined an investment entity and introduced an exception to consolidating particular subsidiaries for investment entities. In addition, the amendments introduced new disclosure requirements for investment entities in IFRS 12 and IAS 27. The exception to consolidation requires investment entities to account for investments in subsidiaries, joint ventures and associates at fair value through profit or loss in accordance with IFRS 9 (or IAS 39, as applicable). This amendment will not have any impact on the financial position or performance of the Bank.

Amendments to IAS 36 - (Recoverable Amount Disclosures for Non-Financial assets)

The IASB, as a consequential amendment to IFRS 13 Fair Value Measurement, modified some of the disclosure requirements in IAS 36 Impairment of Assets regarding measurement of the recoverable amount of impaired assets. The amendments required additional disclosures about the measurement of impaired assets (or a group of assets) with a recoverable amount based on fair value less costs of disposal. The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2014. This amendment is related with disclosure presentation; accordingly it will not have an effect on the financial position or the performance of the Bank.

3. Significant accounting policies (continued)

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

Amendments to IAS 39 - Novation of Derivatives and Continuation of Hedge Accounting

In June 2013, the IASB issued amendments to IAS 39 Financial Instruments: Recognition and Measurement that provides a narrow exception to the requirement for the discontinuation of hedge accounting in circumstances when a hedging instrument is required to be novated to a central counterparty as a result of laws or regulations. The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2014. The Bank does not expect that this amendment will have any impact on the financial position or performance of the Bank.

Improvements to IFRSs

In December 2013, the IASB issued two cycles of Annual Improvements to IFRSs – 2010–2012 Cycle and IFRSs – 2011–2013 Cycle. Other than the amendments that only affect the standards' Basis for Conclusions, the changes are effective July 1, 2014. Earlier application is permitted.

Annual Improvements to IFRSs – 2010–2012 Cycle

IFRS 2 Share-based Payment:

Definitions relating to vesting conditions have changed and performance condition and service condition are defined in order to clarify various issues. The amendment is applied prospectively.

IFRS 3 Business Combinations

Contingent consideration in a business acquisition that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of IFRS 9 Financial Instruments. The amendment is applied prospectively.

IFRS 8 Operating Segments

The changes are as follows: i) Operating segments may be combined/aggregated if they are consistent with the core principle of the standard. ii) The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments are applied retrospectively.

IFRS 13 Fair Value Measurement

As clarified in the Basis for Conclusions short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial. The amendment is effective immediately.

3. Significant accounting policies (continued)

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

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment to IAS 16.35(a) and IAS 38.80(a) clarifies that revaluation can be performed, as follows:
i) Adjust the gross carrying amount of the asset to market value or ii) determine the market value of the carrying amount and adjust the gross carrying amount proportionately so that the resulting carrying amount equals the market value. The amendments are applied retrospectively.

IAS 24 Related Party Disclosures

The amendment clarifies that a management entity – an entity that provides key management personnel services – is a related party subject to the related party disclosures. The amendment is applied retrospectively.

Annual Improvements to IFRSs – 2011–2013 Cycle

IFRS 3 Business Combinations

The amendment clarifies that: i) Joint arrangements are outside the scope of IFRS 3, not just joint ventures ii) The scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively.

IFRS 13 Fair Value Measurement

The portfolio exception in IFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is applied prospectively.

IAS 40 Investment Property

The amendment clarifies the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property. The amendment is applied prospectively.

These amendments will not have an impact on the financial position or performance of the Bank.

IAS 19 Defined Benefit Plans: Employee Contributions (Amendment)

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. The amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. These amendments are to be retrospectively applied for annual periods beginning on or after July 1, 2014. The amendments will not have an impact on the financial position or performance of the Bank.

3. Significant accounting policies (continued)

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

IFRS 11 - Acquisition of an Interest in a Joint Operation (Amendments to IFRS 11)

In May 2014 the IASB amended IFRS 11 to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business.

This amendment requires the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 Business Combinations, to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs except for those principles that conflict with the guidance in this IFRS. In addition, the acquirer shall disclose the information required by IFRS 3 and other IFRSs for business combinations. These amendments are to be applied prospectively for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The amendments will not have an impact on the financial position or performance of the Bank.

IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38)

In May 2014, the IASB issued amendments to IAS 16 and IAS 38, prohibiting the use of revenue-based depreciation for property, plant and equipment and significantly limiting the use of revenue-based amortization for intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The amendments will not have an impact on the financial position or performance of the Bank.

4. Financial risk management

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 on basis, 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. 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 regular 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 - Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

b) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks.

The most important step in managing this risk is the initial decision whether or not to extend credit.

The Bank manages its corporate portfolio as per following principles;

There are risk limits, set by the Board of Directors, describing relevant credit limits such as single borrower limit, group exposure limit, credit approval authorities and their approval limits.

The Bank seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains securities when appropriate.

Management of credit risk

Throughout the loan extension process, the Bank management evaluates the firm's operating performance, financial structure, ability of debt repayment currently and continuance of debt payment ability in the future and the morality of the firm's shareholders. The Bank has generated an internal rating system for the determination of firms' ratings and credit assessments. The "Credit Rating" process is the analysis of objective criteria formed upon the evaluation of firm's financial performance, information gathered throughout intelligence process, relations of the firm with other financial institutions, the firm's production technology, the position of the firm in its sector, the firm's competitiveness and customer and supplier portfolio of the firm. The firms are rated between A - H.

Interval	Rating	Description
90 – 100	A	Excellent
80 – 89	B	Very good
70 – 79	C	Good
60 – 69	D	Average
50 – 59	E	Fair
40 – 49	F	Closely follow up
25 – 39	G	Doubtful
0 – 24	H	Uncollectible

Risk follow-up department performs the monitoring of the morality records of the firm and the black list of central bank, controls the distribution of concentration limits with respect to sector, geography and credit type and controls the collateral structure of the loans.

(Currency - Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

b) Credit risk *(continued)*

Exposure to credit risk

		Due from banks		**Loans and advances to customers**	
At 31 December	*Notes*	**2013**	**2012**	**2013**	**2012**
Carrying amount		**154**	**82**	**121,989**	**102,965**
Individually impaired					
- Non-performing financial assets		-	-	9,755	10,253
Gross amount		-	-	**9,755**	**10,253**
Allowance for impairment	*16*	-	-	(9,282)	(9,353)
Carrying amount		-	-	**473**	**900**
Past due but not impaired		-	-	-	-
Carrying amount		-	-	-	-
Neither past due nor impaired		154	82	123,510	103,146
Gross amount		**154**	**82**	**123,510**	**103,146**
Allowance for collective impairment	*16*			(1,994)	(1,081)
Carrying amount		**154**	**82**	**121,516**	**102,065**
Carrying amount (amortised cost)	*13, 16*	**154**	**82**	**121,989**	**102,965**

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. These loans are graded F to H in the Bank's internal credit risk grading system.

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.

(Currency - Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

b) Credit risk *(continued)*

Exposure to credit risk (continued)

Allowances for impairment

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

Write-off policy

The Bank writes off a loan balance and any related allowances for impairment losses, when Bank determines that the loans are uncollectible. This determination is made after considering information such as the occurrence of significant changes in borrower's financial 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.

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

	Loans and advances to customers	
2013	**Gross**	**Net**
Grade F : Individually impaired	-	-
Grade G : Individually impaired	-	-
Grade H : Individually impaired	9,755	473
Total	**9,755**	**473**

	Loans and advances to customers	
2012	**Gross**	**Net**
Grade F : Individually impaired	-	-
Grade G : Individually impaired	962	481
Grade H : Individually impaired	9,291	419
Total	**10,253**	**900**

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 - Thousands of Turkish Lira (TL))

4. **Financial risk management** *(continued)*

b) Credit risk *(continued)*

Collateral policy *(continued)*

The breakdown of performing and under close follow-up cash and non-cash loans by type of collateral is as follows:

	2013	2012
Secured loans	**484,653**	**126,347**
- Secured by cash collateral	4,739	57
- Secured by mortgages	1,920	1,216
- Other collateral (pledge on assets, corporate and personal guarantees, promissory notes)	477,994	125,074
Unsecured loans	**130,997**	**96,273**
Total performing loans	**615,650**	**222,620**

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	
	2013	**2012**	**2013**	**2012**
Banks	154	82	-	-
Finance	-	-	112,288	85,481
Transportation	-	-	850	76
Production	-	-	170	5,272
Retail	-	-	2,268	5,480
Construction	-	-	4,301	5,641
Real estate property	-	-	-	-
Mining	-	-	-	-
Other	-	-	3,621	1,176
Corporate loans	**154**	**82**	**123,498**	**103,126**
Consumer loans	-	-	12	20
Non-performing loans	-	-	9,755	10,253
Provision for possible loan losses	-	-	(11,276)	(10,434)
Total	**154**	**82**	**121,989**	**102,965**

(Currency - Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

b) Credit risk *(continued)*

Segment concentration of non-cash loans is as follows:

	2013	2012
Mining	315,100	1,757
Finance	78,893	43,885
Electrical, gas and natural resources	44,075	2,135
Production	12,793	17,178
Retail	4,451	3,267
Construction	984	1,022
Transportation	984	835
Other	34,862	49,395
Total	**492,142**	**119,474**

Concentration risk by location

		Due from banks		Loans and advances to customers	
	Notes	2013	2012	2013	2012
Turkey		154	82	121,989	102,965
	13, 16	**154**	**82**	**121,989**	**102,965**

Trading assets including derivative financial instruments

At 31 December 2013, the Bank held derivative financial assets amounting to TL 78 (2012: TL 22 - including trading assets). An analysis of the credit quality of the maximum credit exposure is as follows:

	Notes	2013	2012
Government bonds and treasury bills			
- Rated BB - (trading portfolio)	*14*	284	-
Derivative assets:			
- Bank and financial institution counterparties	*15*	78	22
Fair value and carrying amount		**362**	**22**

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4. Financial risk management *(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"). Currently, this calculation is performed on a bank only basis. 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 2013 and 2012 are as follows:

	First maturity bracket (weekly)		Second maturity bracket (monthly)	
	Foreign currency	Total	Foreign currency	Total
2013 average	134,33	264,07	101,65	295,91
2012 average	126.41	408.13	108.07	260.39

Maturity analysis for financial liabilities

The table on the next page analyses financial liabilities of the Bank into relevant maturity groupings based on the remaining period at statement of financial position date to contractual maturity date.

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4. Financial risk management *(continued)*

c) Liquidity risk *(continued)*

Maturity analysis for financial liabilities (continued)

2013	Note	Carrying Amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Non-derivative liabilities									
Current accounts of loan customers	*21*	7,404	7,462	499	2,010	4,953	-	-	-
Funds borrowed	*22*	28,513	28,520	44	28,476	-	-	-	-
		35,917	35,982	543	30,486	4,953	-	-	-
Derivative financial instruments									
- Outflow	*15*	-	4,193	-	4,193	-	-	-	-
- Inflow	*15*	78	(4,269)	-	(4,269)	-	-	-	-
		78	(76)	-	(76)	-	-	-	-
		35,995	35,906	543	30,410	4,953	-	-	-

2012	Note	Carrying Amount	Gross nominal outflow	Demand	Less than one month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
Non-derivative liabilities									
Current accounts of loan customers	*21*	5,121	(5,127)	(2,048)	(3,079)	-	-	-	-
Funds borrowed	*22*	16,149	(16,156)	(43)	(16,113)	-	-	-	-
		21,270	(21,283)	(2,091)	(19,192)	-	-	-	-
Derivative financial instruments									
- Outflow	*15*	69	(10,528)	-	(6,279)	(4,249)	-	-	-
- Inflow	*15*	(22)	10,437	-	6,248	4,189	-	-	-
		47	(91)	-	(31)	(60)	-	-	-
		21,317	(21,374)	(2,091)	(19,223)	(60)	-	-	-

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 2013 and 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. 26333 dated 1 November 2006, are as follows:

	2013			2012		
	Average	Highest	Lowest	Average	Highest	Lowest
Interest rate risk	1	3	-	11	63	-
Equity price risk	-	-	-	-	-	-
Currency risk	14	58	-	19	229	-
Total value-at-risk	**15**	**61**	**-**	**30**	**292**	**-**

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(Currency - Thousands of Turkish Lira (TL))

4. Financial risk management *(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. The Bank does not prefer to carry foreign currency risk and holds foreign currency asset and liability items together with derivatives in balance against the foreign currency risk.

The Bank manages foreign currency risk by weekly Asset and Liability Committee meetings, comprising members of senior management of the Bank and through limits on the positions which can be taken by the Bank's treasury and securities trading divisions.

The concentrations of assets, liabilities and off statement of financial position items are as follows:

2013	**Euro**	**USD**	**Yen**	**Other**	**Total**
Cash and balances with the Central Bank	-	974	-	-	974
Due from banks	72	69	-	-	141
Loans and advances to customers	-	1,014	-	-	1,014
Current accounts of loan customers	-	-	-	-	-
Funds borrowed	-	(4,163)	-	-	(4,163)
Other liabilities	(5)	(2,244)	-	-	(2,249)
Net balance sheet position	**67**	**(4,350)**	**-**	**-**	**(4,283)**
Net off-balance sheet position					
- Derivative financial assets	-	4,269	-	-	4,269
- Derivative financial liabilities	-	-	-	-	-
Net position	**67**	**(81)**	**-**	**-**	**(14)**

2012	**Euro**	**USD**	**Yen**	**Other**	**Total**
Cash and balances with the Central Bank	-	279	-	-	279
Due from banks	19	52	-	6	77
Loans and advances to customers	-	341	-	-	341
Current accounts of loan customers	-	-	-	-	-
Funds borrowed	(4,307)	(4,297)	-	-	(8,604)
Other liabilities	(4)	(2,424)	-	-	(2,428)
Net balance sheet position	**(4,292)**	**(6,049)**	**-**	**6**	**(10,335)**
Net off-balance sheet position					
- Derivative financial assets	4,233	6,204	-	-	10,437
- Derivative financial liabilities	-	-	-	-	-
Net position	**(59)**	**155**	**-**	**6**	**102**

(Currency - Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

d) Market risk *(continued)*

Currency risk (continued)

Sensitivity analysis

A 10 percent weakening of TL against the foreign currencies at 31 December 2013 and 2012 would have decreased 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.

	2013		2012	
	Equity(*)	Profit or loss	Equity(*)	Profit or loss
Euro	6	6	(6)	(6)
USD	(8)	(8)	16	16
Other currencies	-	-	-	-
Total	**(2)**	**(2)**	**10**	**10**

(*) Equity effect also includes profit or loss effect of 10% devaluation of TL against related currencies.

A 10 percent strengthening of the TL against the foreign currencies at 31 December 2013 and 2012 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 arises from the possibility that changes in interest rates will affect the value of financial instruments and cash flows. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities and off balance sheet instruments that mature or reprice in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through risk management strategies.

A substantial majority of the Bank's assets and liabilities reprice within three months. Accordingly, there is a limited exposure to interest rate risk.

(Currency - Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

d) Market risk *(continued)*

Interest rate risk (continued)

Exposure to interest rate risk

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

2013	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	5 years and over	Non interest	Total
Assets							
Cash and balances with the Central Bank	-	-	-	-	-	1,130	1,130
Due from banks	-	-	-	-	-	154	154
Trading assets	-	-	-	-	-	-	-
Loans and advances to customers	94,798	24,485	2,233	-	-	473	121,989
Total assets	**94,798**	**24,485**	**2,233**	**-**	**-**	**1,757**	**123,273**
Liabilities							
Current accounts of loan customers	-	6,905	-	-	-	499	7,404
Other money market deposits	-	-	-	-	-	-	-
Funds borrowed	28,469	-	-	-	-	44	28,513
Total liabilities	**28,469**	**6,905**	**-**	**-**	**-**	**543**	**35,917**
Balance sheet interest sensitivity gap	**66,329**	**17,580**	**2,233**	**-**	**-**	**1,214**	**87,356**

(*) Includes non-performing loans amounting TL 9,755 and allowance for loan losses amounting TL 9,282 TL.

2012	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	5 years and over	Non interest bearing	Total
Assets							
Cash and balances with the Central Bank	-	-	-	-	-	289	289
Due from banks	-	-	-	-	-	82	82
Trading assets	-	-	-	-	-	-	-
Loans and advances to customers	86,895	13,423	1,566	181	-	900	102,965
Total assets	**86,895**	**13,423**	**1,566**	**181**	**-**	**1,271**	**103,336**
Liabilities							
Current accounts of loan customers	-	3,072	-	-	-	2,049	5,121
Other money market deposits	-	-	-	-	-	-	-
Funds borrowed	16,106	-	-	-	-	43	16,149
Total liabilities	**16,106**	**3,072**	**-**	**-**	**-**	**2,092**	**21,270**
Balance sheet interest sensitivity gap	**70,789**	**10,351**	**1,566**	**181**	**-**	**(821)**	**82,066**

(*) Includes net of non-performing loans amounting TL 10,253 and allowance for loan losses amounting TL 9,353.

(Currency - Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

d) Market risk *(continued)*

Interest Rate Risk Arising from Banking Accounts (continued):

	Currency	Applied Shock (+/- x base points)	Gains/ Losses	Gains/Equity– Losses/Equity
1	TL	500	(311)	(%0.35)
		(400)	261	%0.30
2	Euro	200	-	%0.00
		(200)	-	(%0.00)
3	USD	200	9	%0.01
		(200)	(9)	(%0.01)
	Total (Negative Shock)		**252**	**%0.29**
	Total (Positive Shock)		**(302)**	**%(0.34)**

Summary of average interest rates

As at 31 December 2013 and 2012, the summary of average interest rates for different assets and liabilities are as follows:

	2013			2012		
	Euro	**USD**	**TL**	**Euro**	**USD**	**TL**
Assets						
Cash and balances with the Central Bank	-	-	-	-	-	-
Due from banks	-	-	-	-	-	-
Trading assets	-	-	9.70	-	-	-
Loans and advances to customers	-	4.50	10.79	-	7.35	10.14
Liabilities						
Current accounts of loan customers	-	2.56	8.26	-	3.87	5.00
Funds borrowed	-	1.35	9.34	2.37	1.33	7.00

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.

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4. Financial risk management *(continued)*

e) Operational risk *(continued)*

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, 2010, 2011 and 2012 (Basic Indicator Approach). The amount calculated as TL 21,817 as at 31 December 2013 (2012: TL 21,113) represents the operational risk that the Bank may expose and the amount of minimum capital requirement to eliminate this risk.

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 is 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.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures. Operational risk capital 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.

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Notes to the Financial Statements

As at and for the year ended 31 December 2013

(Currency - Thousands of Turkish Lira (TL))

4. Financial risk management *(continued)*

f) Capital management *(continued)*

The Bank's capital position at 31 December 2013 and 2012 is as follows:

	2013	2012
Tier 1 capital	85,798	80,762
Tier 2 capital	87,792	81,843
Deductions from capital	-	-
Total regulatory capital	**87,792**	**81,843**
Risk-weighted assets	377,810	170,200
Value at market risk	25	200
Operational risk	21,817	21,113
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets, value at market risk and operational risk	22.15	42.23

5. Use of estimates and judgements

Management decides to the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.

These disclosures supplement the commentary on financial risk management (see note 4).

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 in Note 3.

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 a 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.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances when there is objective to suggest that they contain impaired loans and advances, but the individual impaired items cannot yet be identified.

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 3.9. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires 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:

Valuation of financial instruments

The Bank's accounting policy on fair value measurements is discussed in accounting policy 3.9.

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.

(Currency - Thousands of Turkish Lira (TL))

5. Use of estimates and judgements *(continued)*

Critical accounting judgements in applying the Bank's accounting policies *(continued)*

Valuation of financial instruments (continued)

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

2013	*Note*	Level 1	Level 2	Level 3	Total
Assets					
Treasury Bonds		284	-	-	284
Derivative financial instruments		-	78	-	78
BIST Stocks		-	160	-	160
		284	**238**	**-**	**522**
Liabilities					
Derivative financial instruments		-	-	-	-
		-	-	-	-

2012	*Note*	Level 1	Level 2	Level 3	Total
Assets					
Trading assets	*14*	-	-	-	-
Derivative financial instruments	*15*	-	22	-	22
		-	**22**	-	**22**
Liabilities					
Derivative financial instruments	*15*	-	69	-	69
		-	**69**	-	**69**

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5. Use of estimates and judgements *(continued)*

Critical accounting judgements in applying the Bank's accounting policies *(continued)*

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 trading assets and liabilities set out in accounting policy 3 above.

Details of the Bank's classification of financial assets and liabilities are given in note 6 below.

6. Financial assets and liabilities

Accounting classification and 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 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	Other amortised cost	Total carrying amount	Fair value
2013						
Cash and balances with Central Bank	*12*	-	1,130	-	1,130	1,130
Due from banks	*13*	-	154	-	154	154
Trading assets	*14*	-	-	-	-	-
Derivative financial instruments	*15*	78	-	-	78	78
Loans and advances to customers	*16*	-	121,989	-	121,989	120,795
		78	**123,273**	**-**	**123,351**	**122,157**
Derivative financial instruments	*15*	-	-	-	-	-
Current accounts of loan customers	*21*	-	-	7,404	7,404	7,404
Funds borrowed	*22*	-	-	28,513	28,513	28,513
		-	**-**	**35,917**	**35,917**	**35,917**

	Notes	Trading	Loans and receivables	Other amortised cost	Total carrying amount	Fair value
2012						
Cash and balances with Central Bank	*12*	-	289	-	289	289
Due from banks	*13*	-	82	-	82	82
Trading assets	*14*	-	-	-	-	-
Derivative financial instruments	*15*	22	-	-	22	22
Loans and advances to customers	*16*		102,965	-	102,965	102,965
		22	**103,336**	**-**	**103,358**	**103,358**
Derivative financial instruments	*15*	69	-	-	69	69
Current accounts of loan customers	*21*	-	-	5,121	5,121	5,121
Funds borrowed	*22*	-	-	16,149	16,149	16,149
		69	**-**	**21,270**	**21,339**	**21,339**

(Currency - Thousands of Turkish Lira (TL))

7. Net fee and commission income

	2013	2012
Fee and commission income		
Fee and commission income on non-cash loans	3,541	1,021
Fee on banking services	117	110
Other	37	33
Total fee and commission income	**3,695**	**1,164**
Fee and commission expense		
Fee and commission expense on banks	57	41
Other	32	35
Total fee and commission expense	**89**	**76**
Net fee and commission income	**3,606**	**1,088**

8. Net trading gain/(loss)

	2013	2012
Derivative financial instruments	468	(1,717)
	468	**(1,717)**

9. Personnel expenses

	2013	2012
Wages and salaries	3,060	2,869
Social security premiums	235	221
Employee bonus provision	219	216
Provision for employee termination benefits	44	155
Provision for vacation pay liability	30	32
Other personnel expenses	367	437
	3,955	**3,930**

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10. Other operating expenses

	2013	2012
Utilities expense	1,130	819
Rent expenses	639	585
On line data expenses	318	291
Vehicle expenses	255	221
Auditing and consulting expenses	195	173
Subscription and membership fees	138	119
Other	822	776
	3,497	**2,984**

11. Income tax

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

As at 31 December 2013, corporate income tax is 20% (2012: 20%) on the statutory corporate income tax base, which is determined by modifying accounting income for certain exclusions and allowances for tax purposes. There is also a withholding tax levied at a certain rate on the dividends paid and is accrued only at the time of such payments. Some of the deduction rates included in the 15th and 30th articles of the Law no. 5520 on the Corporate Tax, has been redefined according to the cabinet decision numbered 2006/10731, which has been announced at Trade Registry Gazette of 23 July 2006-26237. In this context, withholding tax rate on dividend payments which are made to the companies except those are settled in Turkey or generate income in Turkey via a business or a regular agent has been increased to 15% from 10%.

Under the Turkish taxation system, tax losses can be carried forward to be offset against future taxable income for up to five years. Tax losses cannot be carried back to offset profits from previous years.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Companies file their tax returns within four months following the close of the accounting year to which they relate. Tax returns are open for five years from the beginning of the year that follows the date of filing during which time the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and may issue re-assessments based on their findings.

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

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

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11. Income tax *(continued)*

As at 31 December 2013 and 2012, prepaid income taxes are netted off with the current tax liability as stated below:

	2013	2012
Income tax liability	1,476	1,587
Prepaid income tax	(1,133)	(1,366)
Income taxes payable	**343**	**221**

Income tax recognised in the income statement

The components of income tax expense for the years ended 31 December 2013 and 2012 are:

	2013	2012
Current tax expense		
Current year	1,476	1,587
Deferred tax (income) / expense		
Origination and reversal of temporary differences	(151)	(53)
Total income tax expense	**1,325**	**1,534**

Reconciliation of effective tax rate

Reconciliation between tax expense and the accounting profit multiplied by the statutory income tax rate of the Bank for the years ended 31 December 2013 and 2012 is as follows:

	2013	%	2012	%
Profit before income tax	6,552		7,621	
Taxes on income per statutory tax rate	1,310	20	1,524	20
Tax effect of exempt items	(22)	(0,2)	(36)	(0.5)
Tax effect of disallowable expenses	37	0,2	46	0.5
Total income tax expense	**1,325**	**20**	**1,534**	**20**

12. Cash and balances with Central Bank

	2013	2012
Cash on hand	-	1
Cash and balances with Central Bank of Turkish Republic	240	99
Reserve deposits at Central Bank of Turkish Republic	890	189
	1,130	**289**

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12. Cash and balances with Central Bank (continued)

According to the regulations of the Central Bank of Turkish Republic (the "Central Bank"), banks are obliged to reserve a portion of certain liability accounts as specified in the related decree. Such mandatory reserves are not available for use in the Bank's day to day operations.

The banks operating in Turkey keep reserve deposits for Turkish currency and foreign currency liabilities in TL and USD or Euro at the rates of between 5-11% and between 6-11%, respectively, as per the Communiqué no. 2005/1 "Reserve Deposits" of the Central Bank of Turkey (2012: 5-11% for TL and 6-11% for USD or Euro).

13. Due from banks

	2013	2012
Placements with other banks	154	82
- Demand	*154*	*82*
- Time	-	-
	154	**82**

14. Trading securities

	2013		2012	
	Face value	Carrying value	Face value	Carrying value
Debt and other instruments				
Government bonds	-	284	-	-
	-	**284**	-	-

15. Investment securities

	December 31, 2013	December 31, 2012
Available for sale securities	160	-
	160	-

Obligations under repurchase agreement

	2013	2012
Obligations under repurchase agreement	160	-
	160	-

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16. Derivative financial instruments

In the ordinary course of business, the Bank enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instruments, reference rates or indices. Derivative financial instruments include forwards.

	2013	2012
Derivative financial assets		
Forwards	78	22
Derivative financial liabilities		
Forwards	-	69

The table below shows the notional amounts of derivative instruments analyzed by the term to maturity. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are neither indicative of the market risk nor credit risk.

	2013					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
Currency forwards:						
Purchases	4,269	-	-	-	-	4,269
Sales	4,193	-	-	-	-	4,193
Total of transactions	**8,462**	-	-	-	-	**8,462**

	2012					
	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Over 1 year	Total
Currency forwards:						
Purchases	6,248	4,189	-	-	-	10,437
Sales	6,279	4,249	-	-	-	10,528
Total of transactions	**12,527**	**8,438**	-	-	-	**20,965**

(Currency - Thousands of Turkish Lira (TL))

17. Loans and advances to customers

	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
	December 31, 2013			December 31, 2012		
- Consumer loans	12	-	12	20	-	20
- Corporate loans	133,253	(11,276)	121,977	113,379	(10,434)	102,945
	133,265	**(11,276)**	**121,989**	**113,399**	**(10,434)**	**102,965**

Allowance for impairment

	2013	2012
Specific allowances for impairment		
Balance at 1 January	9,353	9,500
Impairment loss for the year		
- Charge for the year	488	507
- Recoveries	(559)	(654)
Balance at 31 December	**9,282**	**9,353**
Collective allowances for impairment		
Balance at 1 January	1,081	1,264
Impairment loss for the year		
- Charge for the year	913	(183)
Balance at 31 December	**1,994**	**1,081**
Total allowances for impairment	**11,276**	**10,434**

(Currency - Thousands of Turkish Lira (TL))

18. Tangible assets

	Motor vehicles	Furniture and fixtures	Leased assets	Leasehold improvements	Total
Cost					
Balance at 1 January 2012	-	360	263	-	623
Acquisitions	-	2	-	-	2
Disposals	-	(4)	-	-	(4)
Balance at 31 December 2012	**-**	**358**	**263**	**-**	**621**
Balance at 1 January 2013	-	358	263	-	621
Acquisitions	-	8	-	-	8
Disposals	-	(4)	-	-	(4)
Balance at 31 December 2013	**-**	**362**	**263**	**-**	**625**
Depreciation					
Balance at 1 January 2012	-	277	261	-	538
Depreciation for the year	-	31	1	-	32
Disposals	-	(4)	-	-	(4)
Balance at 31 December 2012	**-**	**304**	**262**	**-**	**566**
Balance at 1 January 2012	-	304	262	-	566
Depreciation for the year	-	10	1	-	11
Disposals	-	(5)	-	-	(5)
Balance at 31 December 2013	**-**	**309**	**263**	**-**	**572**
Carrying amounts					
Balance at 1 January 2012	-	83	2	-	85
Balance at 31 December 2012	-	54	1	-	55
Balance at 31 December 2013	-	53	-		53

There were no capitalised borrowing costs related to the acquisition of tangible assets during the year (2012: None).

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19. Intangible assets

	Software
Cost	
Balance at 1 January 2012	893
Acquisitions	12
Disposals	-
Balance at 31 December 2012	**905**
Balance at 1 January 2013	905
Acquisitions	21
Disposals	-
Balance at 31 December 2013	**926**
Amortisation	
Balance at 1 January 2012	840
Amortisation for the year	5
Disposals	-
Balance at 31 December 2012	**845**
Balance at 1 January 2013	845
Amortisation for the year	12
Disposals	-
Balance at 31 December 2013	**857**
Carrying amounts	
Balance at 1 January 2012	53
Balance at 31 December 2012	60
Balance at 31 December 2013	69

(Currency - Thousands of Turkish Lira (TL))

20. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2013			2012		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Allowances on loans and advances to customers	399	-	399	216	-	216
Vacation pay liability	46	-	46	47	-	47
Reserve for employee severance indemnity	73	-	73	78	-	78
Bonus accrual	44	-	44	43	-	43
Derivative financial instruments	-	(16)	(16)	14	(4)	10
Depreciation methodology differences on tangible assets and intangible assets	-	(3)	(3)	-	(2)	(2)
	562	**(19)**	**543**	**398**	**(6)**	**392**

Movements in temporary differences during the year

	Balance at 1 January	Recognised in profit or loss	Balance at 31 December
2013			
Allowances on loans and advances to customers	216	183	399
Vacation pay liability	47	(1)	46
Reserve for employee severance indemnity	78	(5)	73
Bonus accrual	43	1	44
Derivative financial instruments	10	(26)	(16)
Depreciation methodology differences on tangible assets and intangible assets	(2)	(1)	(3)
	392	**151**	**543**
2012			
Allowances on loans and advances to customers	254	(38)	216
Vacation pay liability	46	1	47
Reserve for employee severance indemnity	41	37	78
Bonus accrual	-	43	43
Derivative financial instruments	3	7	10
Depreciation methodology differences on tangible assets and intangible assets	(5)	3	(2)
	339	**53**	**392**

21. Other assets

	2013	2012
Transitory accounts	4,668	6,289
Prepaid expenses	85	85
Others	47	34
Total	**4,800**	**6,408**

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22. Current accounts of loan customers

	2013	2012
Corporate customers	7,404	5,121
- Demand	*499*	*2,049*
- Time	*6,905*	*3,072*
	7,404	**5,121**

23. Funds borrowed

	2013(*)		
		Effective interest rate	
	Amount	Turkish Lira	Foreign currency
Short-term			
Fixed interest	28,513	9%	USD1.35%
Variable interest	-	-	-
Medium/long-term			
Fixed interest	-	-	-
Variable interest	-	-	-
Total	**28,513**		

(*) Based on original maturities.

	2012(*)		
		Effective interest rate	
	Amount	Turkish Lira	Foreign currency
Short-term			
Fixed interest	16,149	7%	USD 1.33% EUR 2.37%
Variable interest	-	-	-
Medium/long-term			
Fixed interest	-	-	-
Variable interest	-	-	-
Total	**16,149**		

(*) Based on original maturities.

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24. Provisions

	2013	2012
Employee termination benefits	367	389
Vacation pay liability	230	237
Bonus accrual	219	216
Non-cash loans	12	49
Total	**828**	**891**

Vacation pay liability

In accordance with existing social legislation in Turkey, the Bank is required to make payments to employees whose employment is terminated for any reason for their vested unused vacation days. Such payments are calculated on the basis of the salary of the employee at the date of termination. Vacation pay liability is the total undiscounted liability of vested unused vacation days of the employees as at 31 December 2013 and 2012.

For the years ended 31 December, movements in the vacation pay liability are as follows:

	2013	2012
At 1 January	237	205
Increase during the year	23	34
Paid	(30)	(2)
At 31 December	**230**	**237**

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. Such payments are calculated on the basis of 30 days' pay, maximum of TL 3.254 at 31 December 2013 (2012: TL 3.034) per year of employment at the rate of pay applicable at the date of retirement or termination. The principal assumption used in the calculation of the total liability is that the maximum liability for each year of service will increase in line with inflation semi-annually.

The liability is not funded, as there is no funding requirement.

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

	2013	2012
At 1 January	389	234
Increase during the year	22	181
Paid	(44)	(26)
At 31 December	**367**	**389**

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24. Provisions *(continued)*

Employee termination benefits *(continued)*

International Accounting Standard No: 19 ("IAS 19") requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. The reserve has been calculated by estimating the present value of future probable obligation of the Bank arising from the retirement of the employees. Accordingly, the following statistical assumptions were used in the calculation of the following liability:

	2013	2012
Discount rate	10.77%	7.0%
Expected rate of salary/limit increase	6.0%	5.0%
Estimated rate of obtaining right for employee termination indemnity	96.43%	96.43%

25. Other liabilities

	2013	2012
Transitory accounts	5,098	6,452
Taxes and funds payable	292	205
VAT payable	3	6
Others	354	121
	5,747	**6,784**

26. Capital and reserves

	2013	2012
Total number of shares, TL 0.1 (in full TL), par value	500.000.000	500.000.000

As at 31 December 2013, the Bank's historical subscribed and issued share capital is TL 50,000.

As at 31 December 2013 and 2012, the composition of shareholders and their respective ownership percentages are summarised as follows:

	2013		2012	
	Amount	**%**	**Amount**	**%**
GSD Holding	50,000		50,000	100
Adjustment to share capital(*)	2,713		2,713	
	52,713		**52,713**	

(*) Adjustment to share capital represents the restatement effect of share capital until 31 December 2005.

GSD Dış Ticaret AŞ, Tekstil Factoring Hizmetleri AŞ, GSD Sigorta Aracılık Hizmetleri AŞ and GSD Denizcilik Gayrimenkul İnşaat San.ve Tic. AŞ have shares amounting less than 1 TL.

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26. Capital and reserves *(continued)*

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.

Dividends paid and proposed

The Bank did not declare or pay dividends out of the profits for the year ended 31 December 2013 as at the date of preparation of these financial statements.

27. Cash and cash equivalents

	Notes	**2013**	**2012**
Cash on hand	*12*	-	1
Cash and balances with Central Bank of Turkish Republic	*12*	240	99
Placement with other banks	*13*	154	82
		394	**182**
Interest accruals on cash and cash equivalents		-	-
		394	**182**

The reserve deposits at Central Bank are not available to finance the Bank's day-to-day operations and therefore are not part of cash and cash equivalents.

28. Commitments and contingencies

There is no significant legal proceeding outstanding against the Bank as at 31 December 2013.

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

	2013	**2012**
Letters of guarantee	492,142	119,474
Irrevocable commitments	22	22
Revocable loan granting commitments	223,628	64,335
Total	**715,792**	**183,831**

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29. 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. The Bank is controlled by GSD Holding, which owns 100% of ordinary shares. For the purpose of these financial statements, shareholders of the Bank, GSD Holding, its subsidiaries (Tekstil Bankası AŞ, GSD Dış Ticaret AŞ, GSD Denizcilik Gayrimenkul İnşaat San.ve Tic. AŞ, Tekstil Menkul Değerler AŞ, Tekstil Faktoring Hizmetleri AŞ, Tekstil Bilişim Hizmetleri AŞ, GSD Eğitim Vakfı, GSD Sigorta Aracılık Hizmetleri AŞ and The Euro Textile International Banking Unit Ltd.) are referred to as related parties. The related parties mainly consist of shareholders, related companies, directors and key management personnel.

	2013						
	Cash loans	Non-cash Loans	Placements	Current accounts of loan customers	Funds borrowed	Other current assets	Notional amount of derivative transactions
Direct / indirect shareholders	1,488	85,814	-	3	-	-	-
Others	520	75,906	14	-	28,513	-	-

	2013				
	Interest income	Interest expense	Fees and commission income	Other operating income	Other operating expenses
Direct / indirect shareholders	135	44	194	216	1,723
Others	275	941	225	-	-

	2012						
	Cash Loans	Non-cash Loans	Placements	Current accounts of loan customers	Funds Borrowed	Other current assets	Notional amount of derivative transactions
Direct / indirect shareholders	6,490	47,863	-	2,668	-	-	20,965
Others	13	40,099	34	-	15,183	-	-

	2012				
	Interest Income	Interest expense	Fees and commission income	Other operating income	Other operating expenses
Direct / indirect shareholders	2,897	1,701	265	251	1,344
Others	-	766	297	-	-

For the year ended 31 December 2013, the executive and non-executive members of Board of Directors and management received remuneration and fees totalling approximately TL 1,288 (2012: TL 1,104) comprising salaries and other short-term benefits.

30. Subsequent Event

Non-performing loan amounting to TL 7.500 was transferred and assigned from the Tekstilbank A.Ş. by the Bank at the date of April 22, 2014. Along with the process of indemnify of real estate collateral continues.

The bank paid TL 214 premium payment to its employees referring to 2013 workings at the date of July 11, 2014.