Yapı ve Kredi Bankası A.Ş.

Interim condensed consolidated financial statements at June 30, 2014 together with independent auditor's review report

Report on review of interim condensed consolidated financial statements

To the Board of Directors of Yapı ve Kredi Bankası A.Ş.

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Yapı ve Kredi Bankası A.Ş. and its subsidiaries ("the Group") as at June 30, 2014, comprising of the interim consolidated statement of financial position as at June 30, 2014 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, "Interim financial reporting" (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

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

Ethem Kutucular
Partner, SMMM

Istanbul, September 10, 2014

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Interim consolidated statement of financial position at June 30, 2014
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	June 30, 2014	December 31, 2013
Assets			
Cash and balances with central banks	5	20,068,317	18,990,749
Loans and advances to banks		5,989,025	6,938,404
Financial assets held for trading			
- Trading securities	6	54,923	126,802
- Derivative financial instruments	7	661,663	1,585,776
Loans and advances to customers	8	115,378,070	106,140,581
Hedging derivatives	7	359,478	467,627
Investment securities			
- Available-for-sale	9	12,994,994	9,934,928
- Available-for-sale pledged as collateral	20	2,048,448	3,276,541
- Held-to-maturity	9	3,927,015	3,522,891
- Held-to-maturity pledged as collateral	20	2,136,062	3,366,712
Investment in associates and joint ventures accounted for using the equity method		452,998	457,337
Goodwill		1,023,528	1,023,528
Other intangible assets		414,261	414,190
Property and equipment		987,229	1,018,871
Deferred income tax assets	14	447,523	261,542
Other assets		2,949,451	2,287,707
Total assets		**169,892,985**	**159,814,186**
Liabilities			
Deposits from banks	10	3,109,227	5,738,024
Customer deposits	11	94,201,836	86,137,979
Funds borrowed	12	26,382,913	25,840,835
Debt securities in issue	13	12,184,288	10,565,621
Derivative financial instruments	7	627,417	863,633
Current income taxes payable	14	331,909	31,215
Deferred income tax liabilities	14	-	657
Hedging derivatives	7	497,205	386,395
Other provisions	15	683,098	645,087
Retirement benefit obligations		836,893	889,849
Other liabilities		11,046,563	9,644,728
Total liabilities		**149,901,349**	**140,744,023**
Equity			
Share capital and share premium		4,822,259	4,822,259
Other reserves	16	1,014,026	510,880
Retained earnings	16	14,154,033	13,735,847
Equity attributable to equity holders of the parent		**19,990,318**	**19,068,986**
Equity attributable to non-controlling interests		1,318	1,177
Total equity		**19,991,636**	**19,070,163**
Total liabilities and equity		**169,892,985**	**159,814,186**

The accompanying notes set out on pages 6 to 44 form an integral part of these consolidated financial statements.

Yapı ve Kredi Bankası A.Ş.

Interim consolidated statement of income for the six-month period ended June 30, 2014
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	June 30, 2014	June 30, 2013 Restated[1]
Continuing operations			
Interest income		6,172,330	4,937,965
Interest expense		(3,870,970)	(2,519,208)
Net interest income		**2,301,360**	**2,418,757**
Fee and commission income		1,377,275	1,219,712
Fee and commission expense		(360,973)	(207,932)
Net fee and commission income		**1,016,302**	**1,011,780**
Foreign exchange gains, net		102,849	59,502
Net trading, hedging and fair value income / (loss)	17	10,733	(15,993)
Gains from investment securities, net	17	87,654	318,302
Other operating income		39,957	40,837
Operating income		**3,558,855**	**3,833,185**
Impairment losses on loans, investment securities and credit related commitments, net	8, 15	(531,695)	(501,936)
Provision for retirement benefit obligations, net		28,337	(46,459)
Other provisions	15	(86,648)	(100,838)
Other operating expenses	18	(1,722,042)	(1,504,678)
Operating profit		**1,246,807**	**1,679,274**
Share of profit/(loss) of associates and joint ventures accounted for using the equity method		16,801	113
Profit before income tax from continuing operations		**1,263,608**	**1,679,387**
Income tax expense	14	(280,068)	(332,971)
Profit for the period from continuing operations		**983,540**	**1,346,416**
Discontinued operations			
Profit from discontinued operations, net of tax	24	-	39,567
Profit for the period		**983,540**	**1,385,983**
Attributable to:			
Equity holders of the parent		983,400	1,383,274
Non-controlling interest		140	2,709
		983,540	**1,385,983**
Basic and diluted earnings per share attributable to the equity holders of the Parent (expressed in TL per thousand share)	19	2.26	3.18
Basic and diluted earnings per share attributable to the equity holders of the Parent for continuing operations (expressed in TL per thousand share)	19	2.26	3.09

[1] Please refer to Note 24.

The accompanying notes set out on pages 6 to 44 form an integral part of these consolidated financial statements.

Yapı ve Kredi Bankası A.Ş.

Interim consolidated statement of comprehensive income for the six-month period ended June 30, 2014

(Amounts expressed in thousands of TL unless otherwise indicated.)

	June 30, 2014	June 30, 2013
Profit for the period	**983,540**	**1,385,983**
Items that are or may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(20,839)	92,238
Net gains / (losses) on available-for-sale financial assets		
- Unrealized net gains / (losses) arising during the period, before tax	669,639	(1,354,019)
- Net amount reclassified to the statement of income	(37,378)	2,890
Net investment hedges		
- Net gains / (losses) arising on hedges recognized in other comprehensive income, before tax	12,381	(58,683)
- Net amount reclassified to the statement of income	-	-
Cash flow hedges		
- Net gains / (losses) arising on hedges recognized in other comprehensive income, before tax	(285,436)	223,627
- Net amount reclassified to the statement of income	58,508	196,933
Income tax effect	**(83,302)**	**193,166**
	313,573	**(703,848)**
Items that will never be reclassified to profit or loss		
Revaluation of property, plant and equipment	13,062	-
Income tax effect	(655)	-
	12,407	-
Other comprehensive income for the period, net of tax	**325,980**	**(703,848)**
Total comprehensive income for the period	**1,309,520**	**682,135**
Total comprehensive income attributable to:		
Equity holders of the parent (total)	1,309,332	679,642
Non-controlling interest (total)	188	2,493

The accompanying notes set out on pages 6 to 44 form an integral part of these consolidated financial statements.

Yapı ve Kredi Bankası A.Ş.

Interim consolidated statement of changes in equity for the six-month period ended June 30, 2014
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Attributable to equity holders of the parent						
	Share capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance at January 1, 2013	**4,286,580**	**535,679**	**1,427,750**	**10,232,299**	**16,482,308**	**60,736**	**16,543,044**
Total comprehensive income for the period	-	-	(703,632)	1,383,274	679,642	2,493	682,135
Dividends paid	-	-	-	(300,000)	(300,000)	(678)	(300,678)
Transfer to statutory reserves	-	-	103,938	(103,938)	-	-	-
Effect of change in non-controlling interest	-	-	-	(74)	(74)	(79)	(153)
Balance at June 30, 2013	**4,286,580**	**535,679**	**828,056**	**11,211,561**	**16,861,876**	**62,472**	**16,924,348**
Balance at January 1, 2014	**4,286,580**	**535,679**	**510,880**	**13,735,847**	**19,068,986**	**1,177**	**19,070,163**
Total comprehensive income for the period	-	-	325,932	983,400	1,309,332	188	1,309,520
Dividends paid	-	-	-	(388,000)	(388,000)	(47)	(388,047)
Transfer to statutory reserves	-	-	177,214	(177,214)	-	-	-
Effect of change in non-controlling interest	-	-	-	-	-	-	-
Balance at June 30, 2014	**4,286,580**	**535,679**	**1,014,026**	**14,154,033**	**19,990,318**	**1,318**	**19,991,636**

The accompanying notes set out on pages 6 to 44 form an integral part of these consolidated financial statements.

Interim consolidated statement of cash flows for the six-month period ended June 30, 2014

(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	June 30, 2014	June 30, 2013
Cash flows from operating activities			
Net profit		983,540	1,385,983
Adjustments for:			
Unrealized loss on financial assets held for trading, net		370	16,429
Allowances for losses on loans, investment securities and credit related commitments	8, 15	531,695	501,936
Measurement of derivative financial instruments at fair value	7	906,856	(920,492)
Share of profit of associates and joint ventures		(16,801)	(113)
Amortization of other intangible assets	18	52,530	38,176
Depreciation of property and equipment	18	80,566	83,359
Provision for current and deferred income taxes		280,068	332,971
Other provisions	15	86,648	100,838
Provision / (reversal) for retirement benefit obligations		(28,337)	46,459
Provision for retirement benefit obligations and expense accruals		(42,875)	(23,248)
Unearned commission income		13,592	21,506
Dividend income		(3,520)	(15,399)
Interest income, net		(2,301,360)	(2,427,909)
Interest paid		(3,930,881)	(2,587,682)
Interest received		5,747,581	5,924,641
Effect of exchange rates on financing activities		(216,996)	2,242,784
Others, net		666,158	(386,186)
Cash flows from operating profits before changes in operating assets and liabilities		**2,808,834**	**4,334,053**
Changes in operating assets and liabilities:			
Net decrease / (increase) in cash balances with central banks		(56,138)	(3,209,827)
Net decrease / (increase) in loans and advances to banks		(58,847)	417,557
Net decrease / (increase) in trading securities		71,509	342,210
Net decrease / (increase) in loans and advances to customers		(10,027,127)	(10,240,113)
Net decrease / (increase) in other assets		(855,349)	(1,104,936)
Net (decrease) / increase in deposits from banks		(2,629,383)	2,499,223
Net (decrease) / increase in customer deposits		7,972,357	6,610,091
Net (decrease) / increase in other liabilities and provisions		2,136,857	(948,905)
Income taxes paid		(193,313)	(335,984)
Net cash from / (used in) operating activities		**(830,600)**	**(1,636,631)**
Cash flows from investing activities			
(Purchase of) property and equipment		(73,303)	(38,425)
Net book value of property and equipment disposed		42,536	4,726
Sale / (purchase) of intangible assets, net		(52,635)	3,641
(Purchase of) held-to-maturity securities		(883,549)	(29,264)
Redemption of held-to-maturity securities		1,679,387	65,370
(Purchase of) available-for-sale securities		(4,528,840)	(7,263,993)
Sale or redemption of available-for-sale securities		3,913,435	7,397,975
Dividends received		3,520	15,399
Others, net		-	(30,104)
Net generated in investing activities		**100,551**	**125,325**
Cash flows from financing activities			
(Repayments of) borrowed funds and debt securities		(5,871,784)	(11,432,855)
Proceeds from borrowed funds and debt securities		7,476,636	11,964,855
Dividend paid		(388,047)	(300,678)
Net cash from financing activities		**1,216,805**	**231,322**
Net increase / (decrease) in cash and cash equivalents		**486,756**	**(1,279,984)**
Effects of foreign exchange rate changes on cash and cash equivalents		(34,701)	407,701
Cash and cash equivalents at beginning of period		10,639,564	11,014,535
Cash and cash equivalents at end of period	**5**	**11,091,619**	**10,142,252**

The accompanying notes set out on pages 6 to 44 form an integral part of these consolidated financial statements.

1. General information

Yapı ve Kredi Bankası A.Ş. ("YKB", the "Parent Bank" or the "Bank" or together with its subsidiaries it is referred to as "the Group" in these consolidated financial statements) was established with the permission of the Council of Ministers of the Republic of Turkey No.3/6710 on September 9, 1944 as a private capital commercial bank, authorized to perform all banking, economic, financial and commercial activities which are allowed by Turkish laws. The statute of the Bank has not changed since its in corporation. The Group provides retail, corporate and private banking, credit cards, leasing, factoring and investment management services. The Group has operations in Turkey, the Netherlands, Azerbaijan and Russia.

The Group's controlling parent with 81.80% of shareholding is Koç Finansal Hizmetler A.Ş. ("KFS"), a joint venture of UniCredit Group ("UCG") and Koç Group. KFS was established as a financial holding company on March 16, 2001 to combine Koç Group financial services companies under one organization. As of October 22, 2002, Koç Group established a strategic partnership with UCG over KFS.

The Bank's shares have been traded on the Istanbul Stock Exchange ("ISE") since 1987. As of June 30, 2014, 18.20% of the shares of the Bank are publicly traded (December 31, 2013 - 18.20%). The Bank's publicly traded shares are traded on ISE and the representatives of these shares, Global Depository Receipts, are quoted on the London Stock Exchange.

At June 30, 2014, the Group has 18,794 employees (December 31, 2013 - 16,680 employees). The Bank has 967 branches operating in Turkey and 1 branch in overseas (December 31, 2013 - 948 branches operating in Turkey, 1 branch in overseas) and 17,721 employees (December 31, 2013 - 15,683 employees).

The Bank is registered in Istanbul, Turkey at the following address: Yapı Kredi Plaza D Blok, Levent 34330, İstanbul, Turkey.

These interim condensed consolidated financial statements have been approved for issue by the Board of Directors on September 10, 2014.

2. Summary of significant accounting policies

A. Basis of preparation

These interim condensed consolidated financial statements for the period ended June 30, 2014 have been prepared in accordance with IAS 34, "Interim Financial Reporting". The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended December 31, 2013.

The interim condensed consolidated financial statements are presented in the national currency of the Republic of Turkey, the Turkish lira ("TL").

2. Summary of significant accounting policies (continued)

Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements as at June 30, 2014 are consistent with those followed in the preparation of the consolidated financial statements of the prior year, except IAS 16 Property, Plant and Equipment.

All property and equipment are carried at cost less accumulated depreciation and accumulated impairment, if any, except art objects and paintings. The Group adopted a revaluation model for its art objects and paintings in property and equipment in accordance with IAS 16 in the current period. The increase in the carrying amounts of art objects and paintings is recognised in other comprehensive income and accumulated in equity under the heading of revaluation of property, plant and equipment.

Standards issued but not yet effective and not early adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the period ended June 30, 2014, and have not been applied in preparing these consolidated financial statements. Those that may be relevant to the Group are set out below. The Group does not plan to adopt these standards early. None of these will have a material effect on the consolidated financial information of the Group, with the exception of:

IFRS 9 Financial Instruments (2013), IFRS 9 Financial Instruments (2010) and IFRS 9 Financial Instruments (2009) (together, IFRS 9)

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. IFRS 9 (2013) introduces new requirements for hedge accounting.

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

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

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

IFRS 9 (2013) introduces new requirements for hedge accounting that align hedge accounting more closely with risk management. The requirements also establish a more principles-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39.

2. Summary of significant accounting policies (continued)

IFRS 9 (2014), the final version of IFRS 9, brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics. Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting.

IFRS 9 is effective for annual periods beginning on or after January 1, 2018. However, early application of IFRS 9 is permitted. In addition, the own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments.

The Group has started the process of evaluating the potential effect of this standard. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements.

Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

The amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after January 1, 2014. Early application is permitted. The Group does not expect that this amendment will have any impact on the financial position or performance of the Group.

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

As a consequential amendment to IFRS 13 Fair Value Measurement, some of the disclosure requirements in IAS 36 Impairment of Assets regarding measurement of the recoverable amount of impaired assets has been modified. 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. Earlier application is permitted for periods when the entity has already applied IFRS 13. The Group does not expect that this amendment will have any impact on the financial position or performance of the Group.

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

Amendments to IAS 39 Financial Instruments: Recognition and Measurement, 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 Group does not expect that this amendment will have any impact on the financial position or performance of the Group.

3. Changes to critical accounting estimates and judgements in applying accounting policies

The preparation of interim condensed consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense.

In preparing these interim condensed consolidated financial statements, the significant judgements made by management in applying the accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual consolidated financial statements for the year ended December 31, 2013.

4. Financial risk management

The Group's risk management functions are independent from the commercial operations along with committees such as Executive Committee and the other individual risk committees covering credit, market and operational risks and are an integral part of ensuring the Group's fulfillment of requirements stipulated by the Banking Law in a manner consistent with shareholders' risk appetites. The risk management function is responsible for: (1) maximizing returns on invested capital and maintaining sustainable growth of profitability (2) monitoring trends in risk exposures and communicating irregularities promptly to senior management (3) monitoring asset and liability profiles for rebalancing actions on a timely basis (4) identifying and classifying the risk structures of products, processes and services (5) developing and validating the credit rating/scoring models and (6) ensuring compliance with Basel II requirements and Banking Law.

A. Credit risk

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. Credit risk arises mainly from commercial and consumer loans and advances, credit cards and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as financial guarantees, letters of credit, endorsements and acceptances.

The Group is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets, derivatives, reverse repos and settlement balances with market counterparties.

The Group makes available to its customers guarantees which may require that the Group makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to similar risks to loans and are mitigated by the same control processes and policies.

The Group manages credit risk through the following implementations:

(a) establishment of credit risk policy involving credit risk strategies, implementation of credit policy guidelines, definition of the optimum composition of the overall loan portfolio, credit risk budget and identification of risk positions within legal and group wide limitations;

(b) development, enhancement and maintenance of the rating and scoring models (probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD") models for all segments for measuring, monitoring and controlling credit risk;

(c) monitoring and measuring the evolution of credit risk for all segments, (i.e. by industry, sector, geographical area etc.), presentation of the strategic credit risk related reports to senior management, including evolution of loan provisioning and comparison with peer banks;

(d) obtaining continuity of operative methodologies (e.g. borrower evaluation, loan and collateral classifications, monitoring and recovery principles) for credit processes (underwriting, monitoring and work-out) and related tools (including testing of new functionalities);

(e) evaluation of new credit products, changes to existing ones and monitoring them to ensure the risk profile is coherent with the risk appetite and reputational risk of the Bank (e.g. on the basis of minimum requirements in terms of granting, monitoring, work-out procedures, pilot phase definition, regular performance measurement, sustainable and sound introduction and growth criteria, etc.);

(f) preparation of credit risk budget in line with predefined lending targets;

(g) calculation of Cost of Risk and related provisions by segments to better assess the riskiness of loan portfolio for maintaining the asset quality;

(h) execution of provisioning methodologies in line with BRSA and IFRS principles.

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

Credit policies reflect the general credit risk principles to be followed throughout the Group's lending activities and the related strategies and goals, as well as shareholders' risk appetites. The credit policy guideline is prepared by the Group's credit risk management department and approved by the Board of Directors.

The details of the loans and advances past due but not impaired which are classified under the performing loans (including past due watch-listed loans) are as follows;

	June 30, 2014				
	Past due up to 30 days	**Past due between 30 - 60 days**	**Past due between 60 - 90 days**	**Total**	**December 31, 2013 Total**
Corporate	246,398	339,878	1,438,830	2,025,106	1,438,468
Consumer	986,708	500,984	342,587	1,830,279	1,208,038
Credit cards	787,608	278,159	275,864	1,341,631	811,250
Leasing	9,876	7,175	1,481	18,532	13,540
Factoring	188,005	18,805	7,972	214,782	343,309
	2,218,595	**1,145,001**	**2,066,734**	**5,430,330**	**3,814,605**

The watch list category is defined as the clients with payments past due 30 to 90 days and clients which are considered by the monitoring department on the basis of subjective criteria, to require close monitoring.

B. Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. As a commercial group, the focus is serving the financial needs of the customers, thereby generating exposure to interest rate, and foreign exchange risk.

The Market Risk Policy of the Group identifies risk-management guidelines. According to the Market Risk Policy, market risk is managed depending on the treatment of the banking book and trading book. The banking book consists of all assets and liabilities arising from commercial activities and is sensitive to interest rate and foreign exchange movements. The trading book, on the other hand, includes the positions held for trading, client servicing purposes or for market making operations.

The Group trades mainly in FX and securities, with in predefined limits. Risk limits are set on intra-day and end of day positions as well as a Value-at-Risk, monitored on a daily basis.

The banking book interest rate risk is measured through the economic value sensitivity method, which implies the potential change in fair value of the interest rate positions resulting from a parallel upward/downward shift of the yield curve. The overall sensitivity is required to be within 20% of the Core Tier 1 Capital, as also outlined in Basel II. Interest rate swaps are utilized to mitigate the banking book interest rate risk resulting from reprising and maturity mismatches. Besides Economic Value Sensitivity, an overall Value at Risk, covering all statement of financial position items and Basis Point Value ("BPV") methods are used to measure the structural interest rate risk.

As part of the management of market risk, the Group undertakes various hedging strategies with hedge accounting applied (Note 7). The Group also uses derivative financial instruments such as forwards, swaps, futures and options in the foreign exchange and capital markets. These transactions are considered as effective economic hedges under the Group'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.

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

i) Foreign exchange risk

Foreign exchange exposure is the result of the mismatch of foreign currency denominated assets and liabilities (including foreign currency indexed ones) together with exposures resulting from off-balance sheet foreign exchange derivative instruments. The Group takes an exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The limits are set by Board of Directors on the level of exposure in aggregate for both overnight and intra-day positions, which are monitored on a daily basis.

The table below summarizes the Group's assets and liabilities at carrying amounts, categorized by currency. The off-balance sheet gap represents the difference between the notional amounts of purchase and sale foreign currency derivative financial instruments.

June 30, 2014

				Foreign currency
	USD	**EUR**	**Other**	**Total**
Assets				
Cash and balances with central banks	8,437,662	6,273,499	2,843,185	17,554,346
Loans and advances to banks	1,526,123	1,084,383	115,126	2,725,632
Financial assets held for trading				
- Trading securities	8,734	3,932	-	12,666
- Derivative financial instruments	84,927	33,460	180	118,567
Loans and advances to customers (1)	29,193,767	15,265,800	1,234,966	45,694,533
Hedging derivatives	681	-	-	681
Investment securities				
- Available-for-sale	2,886,757	338,039	67,998	3,292,794
- Held-to-maturity	2,882,772	582,354	1	3,465,127
Investment in associates and joint ventures	-	-	259,331	259,331
Property and equipment	-	1,657	42,232	43,889
Deferred income tax assets	-	4,106	389	4,495
Other assets	317,364	484,554	186,268	988,186
Total assets	**45,338,787**	**24,071,784**	**4,749,676**	**74,160,247**
Liabilities				
Deposits from banks	1,691,004	559,323	7,183	2,257,510
Customer deposits	26,041,310	14,758,693	2,020,892	42,820,895
Funds borrowed	10,173,142	11,342,017	749,295	22,264,454
Debt securities in issue	8,068,370	1,069,254	187,806	9,325,430
Derivative financial instruments	73,530	8,628	228	82,386
Current income taxes payable	-	-	1,191	1,191
Deferred income tax liabilities	-	-	-	-
Hedging derivatives	209,325	73,270	-	282,595
Other provisions	-	162	356	518
Retirement benefit obligations	-	11,119	-	11,119
Other liabilities	1,125,341	1,295,982	38,134	2,459,457
Total liabilities	**47,382,022**	**29,118,448**	**3,005,085**	**79,505,555**
Net balance sheet position	**(2,043,235)**	**(5,046,664)**	**1,744,591**	**(5,345,308)**
Off-balance sheet derivative instruments net notional position	2,176,613	5,636,103	(1,272,928)	6,539,788
Net foreign currency position	**133,378**	**589,439**	**471,663**	**1,194,480**

(1) Collective impairment allowance of TL 541,042 calculated on foreign currency denominated loans is presented as TL balance in the above currency position table.

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

December 31, 2013

	USD	EUR	Other	Foreign currency Total
Assets				
Cash and balances with central banks	7,934,630	6,631,298	3,094,346	17,660,274
Loans and advances to banks	1,675,151	1,463,855	402,482	3,541,488
Financial assets held for trading				
- Trading securities	19,975	5,738	-	25,713
- Derivative financial instruments	96,438	69,219	1,804	167,461
Loans and advances to customers (1)	26,994,253	14,897,302	1,086,043	42,977,598
Hedging derivatives	4,808	-	-	4,808
Investment securities				
- Available-for-sale	3,472,618	375,958	67,284	3,915,860
- Held-to-maturity	2,911,385	400,555	-	3,311,940
Investment in associates and joint ventures	-	-	253,462	253,462
Property and equipment	-	1,935	44,283	46,218
Deferred income tax assets	-	4,287	201	4,488
Other assets	420,786	291,715	171,365	883,866
Total assets	**43,530,044**	**24,141,862**	**5,121,270**	**72,793,176**
Liabilities				
Deposits from banks	3,521,698	490,020	21,431	4,033,149
Customer deposits	25,479,239	15,464,682	2,178,452	43,122,373
Funds borrowed	9,915,323	11,523,397	141,573	21,580,293
Debt securities in issue	7,633,707	1,254,482	17,655	8,905,844
Derivative financial instruments	76,804	9,187	2,107	88,098
Current income taxes payable	-	678	-	678
Deferred income tax liabilities	-	-	657	657
Hedging derivatives	270,240	85,582	-	355,822
Other provisions	-	164	167	331
Retirement benefit obligations	-	11,291	-	11,291
Other liabilities	857,408	1,456,671	28,404	2,342,483
Total liabilities	**47,754,419**	**30,296,154**	**2,390,446**	**80,441,019**
Net balance sheet position	**(4,224,375)**	**(6,154,292)**	**2,730,824**	**(7,647,843)**
Off-balance sheet derivative instruments net notional position	4,310,856	6,679,854	(2,254,260)	8,736,450
Net foreign currency position	**86,481**	**525,562**	**476,564**	**1,088,607**

(1) Collective impairment allowance of TL 510,329 calculated on foreign currency denominated loans is presented as TL balance in the above currency position table.

At June 30, 2014, assets and liabilities denominated in foreign currency were translated into TL using a foreign exchange rate of TL 2.1234 = USD 1, and TL 2.8919 = EUR 1 (2013 - TL 2.1343 = USD 1, and TL 2.9365 = EUR 1).

For the purpose of calculating currency risks, foreign currency indexed loans and securities have been reported in this table in the relevant currency of indexation.

ii) Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest rate risk limits are set in terms of an economic value sensitivity limit and Basis Point Value (“BPV”) limit. Economic value sensitivity analysis is performed according to a scenario of 2% shift in FX yield curve and 4% shift in TL yield curve. The resulting profit/loss should not exceed 20% (Sensitivity Limit) of the Bank’s Tier 1 + Tier 2 Capital. The BPV limit restricts maximum interest rate risk position by currency and time buckets. BPV is applied for the banking book and represents the sensitivity of the banking book to 1 bps change in interest rates.

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

The table below summarizes the Group's exposure to interest rate risk at June 30, 2014 and December 31, 2013. Included in the table are the Group's assets and liabilities in carrying amounts classified in terms of periods remaining to contractual repricing dates.

June 30, 2014	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with central banks	-	-	-	-	20,068,317	20,068,317
Loans and advances to banks	4,947,541	398,125	42,800	262	600,297	5,989,025
Financial assets held for trading						
- Trading securities	3,383	3,336	9,348	28,253	10,603	54,923
- Derivative financial instruments	248,183	357,503	50,811	5,166	-	661,663
Loans and advances to customers	41,089,286	41,088,148	23,850,137	7,352,326	1,998,173	115,378,070
Hedging derivatives	264,651	94,827	-	-	-	359,478
Investment securities						
- Available-for-sale	2,945,414	5,549,581	3,080,462	3,323,588	144,397	15,043,442
- Held-to-maturity	1,036,482	1,237,488	814,204	2,974,903	-	6,063,077
Investment in associates and joint ventures	-	-	-	-	452,998	452,998
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	-	-	414,261	414,261
Property and equipment	-	-	-	-	987,229	987,229
Deferred income tax assets	-	-	-	-	447,523	447,523
Other assets	-	-	-	-	2,949,451	2,949,451
Total assets	**50,534,940**	**48,729,008**	**27,847,762**	**13,684,498**	**29,096,777**	**169,892,985**
Liabilities						
Deposits from banks	2,331,007	486,035	33,057	-	259,128	3,109,227
Customer deposits	71,063,052	5,460,783	1,050,340	205,685	16,421,976	94,201,836
Funds borrowed	13,078,057	7,704,435	2,889,649	2,710,772	-	26,382,913
Debt securities in issue	1,459,156	3,615,424	5,894,191	1,215,517	-	12,184,288
Derivative financial instruments	333,698	263,176	24,335	6,208	-	627,417
Current income taxes payable	-	-	-	-	331,909	331,909
Deferred income tax liabilities	-	-	-	-	-	-
Hedging derivatives	399,284	97,921	-	-	-	497,205
Other provisions	-	-	-	-	683,098	683,098
Retirement benefit obligations	-	-	-	-	836,893	836,893
Other liabilities	68,736	5,446	-	8,112	10,964,269	11,046,563
Total liabilities	**88,732,990**	**17,633,220**	**9,891,572**	**4,146,294**	**29,497,273**	**149,901,349**
Net interest repricing gap (on balance)	**(38,198,050)**	**31,095,788**	**17,956,190**	**9,538,204**	**(400,496)**	**19,991,636**
Off-balance sheet derivative instruments net notional position	14,286,779	209,874	(13,614,760)	(1,246,262)	-	(364,369)
Net interest repricing gap (net position)	**(23,911,271)**	**31,305,662**	**4,341,430**	**8,291,942**	**(400,496)**	**19,627,267**

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

December 31, 2013	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with central banks	-	-	-	-	18,990,749	18,990,749
Loans and advances to banks	5,100,010	160,720	268,580	797	1,408,297	6,938,404
Financial assets held for trading						
- Trading securities	9,585	22,274	8,210	16,094	70,639	126,802
- Derivative financial instruments	889,962	625,519	70,295	-	-	1,585,776
Loans and advances to customers	47,497,611	28,727,621	21,018,579	6,922,603	1,974,167	106,140,581
Hedging derivatives	180,363	287,264	-	-	-	467,627
Investment securities						
- Available-for-sale	3,292,920	3,020,550	3,394,855	3,376,746	126,398	13,211,469
- Held-to-maturity	2,286,497	1,379,856	213,437	3,009,813	-	6,889,603
Investment in associates and joint ventures	-	-	-	-	457,337	457,337
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	-	-	414,190	414,190
Property and equipment	-	-	-	-	1,018,871	1,018,871
Deferred income tax assets	-	-	-	-	261,542	261,542
Other assets	-	-	-	-	2,287,707	2,287,707
Total assets	**59,256,948**	**34,223,804**	**24,973,956**	**13,326,053**	**28,033,425**	**159,814,186**
Liabilities						
Deposits from banks	4,627,196	436,095	134,031	-	540,702	5,738,024
Customer deposits	64,749,893	6,163,400	964,820	333,389	13,926,477	86,137,979
Funds borrowed	16,208,274	6,220,898	2,882,399	529,264	-	25,840,835
Debt securities in issue	3,325,120	1,883,459	2,129,331	3,227,711	-	10,565,621
Derivative financial instruments	379,523	446,806	34,303	3,001	-	863,633
Current income taxes payable	-	-	-	-	31,215	31,215
Deferred income tax liabilities	-	-	-	-	657	657
Hedging derivatives	293,333	93,062	-	-	-	386,395
Other provisions	-	-	-	-	645,087	645,087
Retirement benefit obligations	-	-	-	-	889,849	889,849
Other liabilities	61,762	7,715	715	2	9,574,534	9,644,728
Total liabilities	**89,645,101**	**15,251,435**	**6,145,599**	**4,093,367**	**25,608,521**	**140,744,023**
Net interest repricing gap (on balance)	**(30,388,153)**	**18,972,369**	**18,828,357**	**9,232,686**	**2,424,904**	**19,070,163**
Off-balance sheet derivative instruments net notional position	15,720,416	424,881	(14,324,820)	(1,247,341)	-	573,136
Net interest repricing gap (net position)	**(14,667,737)**	**19,397,250**	**4,503,537**	**7,985,345**	**2,424,904**	**19,643,299**

The table below summarises weighted average interest rates for financial instruments by major currencies outstanding at June 30, 2014 and December 31, 2013 based on yearly contractual rates.

	June 30, 2014			December 31, 2013		
	USD (%)	**EUR (%)**	**TL (%)**	**USD (%)**	**EUR (%)**	**TL (%)**
Assets						
Cash and balances with central banks	-	-	-	-	0.01	-
Loans and advances to banks	2.40	0.55	10.23	1.22	2.43	8.18
Financial assets held for trading	3.99	2.96	8.98	4.59	2.34	9.07
Investment securities						
- Available-for-sale	6.49	5.49	10.67	6.75	5.41	9.36
- Held-to-maturity	5.47	3.70	10.62	5.47	4.26	8.93
Loans and advances to customers	5.14	5.09	13.62	5.01	5.04	12.33
Liabilities						
Deposits from banks	1.01	1.55	9.81	2.03	1.38	8.02
Customer deposits	2.33	2.33	10.82	2.86	2.76	9.05
Debt securities in issue	3.34	1.88	9.70	3.88	1.50	7.89
Funds borrowed	3.49	1.89	9.27	3.40	2.05	8.90

4. Financial risk management (continued)

C. Liquidity risk

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The liquidity risk is managed within the Asset and Liability Management strategy in accordance with the market risk policies. In this scope, the funding sources are being diversified and sufficient cash and cash equivalents are held to fulfill the obligations associated with financial liabilities. During the monthly meetings of the Executive Committee, the liquidity position of the Group is evaluated and it is ensured that the required actions are taken when considered necessary.

Liquidity risk is closely monitored within the Group and particular attention is paid to keeping enough cash and cash-equivalent instruments to fund increases in assets or unexpected decreases in liabilities, and to meet legal requirements, thereby optimizing the cost of carrying any excess liquidity. The Liquidity Policy provides guidelines to quantify the liquidity position and achieve a sound balance between profitability and liquidity needs. Liquidity risk limits are set both for short-term and structural (long-term) liquidity positions.

Within the Group, the following definitions apply to the components of Liquidity Risk:

1. ***Liquidity Mismatch Risk*** refers to the risk of non-conformity between the amounts and/or the maturities of cash inflows and cash outflows;

2. ***Liquidity Contingency Risk*** refers to the risk that future unexpected events could require a greater amount of liquidity than the amount foreseen as necessary for the Group. This risk could arise as a result of events such as the failure by clients to reimburse loans, the need to finance new assets, difficulties in selling liquid assets or obtaining new financings in the event of a liquidity crisis; and

3. ***Market Liquidity Risk*** refers to the risk that the Group may incur losses as a result of the sale of assets deemed to be liquid, or in extreme conditions is not able to liquidate such positions due to insufficient liquidity being offered by the market or maintains a position that is too large when compared to market turnover. Market liquidity risk is primarily handled via the VaR system in the Credit Risk Officer (“CRO”) division and is not a focus of the Liquidity Policy.

Reports on short term liquidity positions and structural liquidity positions are prepared by Risk Management. Short-term liquidity risk management considers the events that will impact upon the Group’s liquidity position from one day up to three months. Structural liquidity positions consider the events effecting the Group’s liquidity position in the long term. The primary objective is to maintain an adequate ratio between total liabilities and medium or long term assets, with a view to avoiding pressures on short-term sources (both current and future), while in the meantime optimizing the cost of funding.

In cases when financial events require more liquidity than the Bank's daily liquidity needs, “Emergency Situation Liquidity Plan” is activated where duties and responsibilities are defined in detail. Liquidity Stress Test scenarios are used to measure the Bank's resistance to unexpected situations.

According to the BRSA communiqué on liquidity, banks have to meet 80% liquidity ratio of foreign currency assets/liabilities and 100% liquidity ratio of total assets/liabilities for weekly and monthly time brackets. Risk Management performs the calculation of these ratios on a daily basis and shares the results with Treasury department and senior management.

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

D. Capital management

Banks in Turkey are required to comply with capital adequacy guidelines promulgated by the BRSA, which are based upon the standards established by the Bank of International Settlements ("BIS"). These guidelines require banks to maintain adequate levels of regulatory capital against risk-bearing assets and off-statement of financial position exposures.

A bank's capital adequacy ratio is calculated by taking the aggregate of its Tier I capital (which comprises paid-in capital, reserves, retained earnings and profit for the current periods minus period loss (if any)) its Tier II capital (which comprises general loan and free reserves, revaluation funds and subordinated loans obtained) and its Tier III capital (which comprises certain qualified subordinated loans in accordance with regulatory guidelines) minus deductions (which comprises participations to financial institutions, negative differences between fair and book values of subsidiaries, subordinated loans extended, goodwill and capitalized costs), and dividing this aggregate by risk weighted assets, which reflect both credit risk, market risk and operational risk. In accordance with these guidelines, banks must maintain a total capital adequacy ratio of a minimum of 12%.

The Group's regulatory capital adequacy position on a consolidated basis at June 30, 2014 and December 31, 2013 was as follows:

	June 30, 2014	**December 31, 2013**
Tier I capital	17,990,257	17,012,770
Tier II capital	6,398,369	6,431,274
Deductions	(328,457)	(302,077)
Total regulatory capital	24,060,169	23,141,967
Risk-weighted assets (including credit, market and operational risk)	162,531,788	151,077,538
Capital adequacy ratio (%)	**14.80**	**15.32**

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

E. Fair value of financial instruments

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

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

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

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

The Group did not recognise any transfers between levels of the fair value hierarchy as of the end of the reporting period after the application of IFRS 13 from January 1, 2013.

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Set out below is a comparison, by class, of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the financial statements.

	June 30, 2014		December 31, 2013	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets:				
Loans and advances to banks	5,989,025	6,004,933	6,938,404	6,947,221
Investment securities (held-to-maturity)	6,063,077	6,074,200	6,889,603	6,888,193
Loans and advances to customers(1)	114,189,638	119,517,622	104,162,380	105,328,997
Financial liabilities:				
Deposits from banks	3,109,227	3,148,045	5,738,024	5,743,260
Customer deposits	94,201,836	97,009,633	86,137,979	86,693,115
Funds borrowed	26,382,913	26,517,660	25,840,835	25,931,947
Debt securities in issue	12,184,288	12,217,863	10,565,621	10,599,196

(1) The loans and advances to customers subject to fair value hedge are not included.

The estimated fair values of financial instruments have been determined by the Group using available market information and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to develop the estimated fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realize in a current market exchange.

4. Financial risk management (continued)

Loans and advances to banks

The fair value of overnight deposits is considered to approximate its carrying amounts. The estimated fair value of interest bearing placements is based on discounted cash flows using prevailing money market interest rates at the statement of financial position date with similar credit risk and remaining maturity.

Loans and advances to customers

Loans and advances to customers are net of allowances for impairment. The estimated fair value of loans and advances to customers represent the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates with similar currency and remaining maturity to determine their fair value. The credit risk is not considered when calculating the fair value of loans and advances to customers as in line with the pricing of such loans except loans and advances to customers with short term maturity.

Investment securities

Fair value for held-to-maturity securities is based on market prices or prices prevailing at the statement of financial position date announced by the BIST.

Customer deposits, deposits from banks, funds borrowed and debt securities in issue

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount repayable on demand.

The estimated fair value of other borrowings without quoted market price is based on discounted cash flows using money market interest rates prevailing at the statement of financial position date with similar credit risk, currency and remaining maturity. The fair value of debt securities in issue is considered to approximate its carrying amounts.

Derivatives

Derivative products valued using a valuation technique with market observable inputs are mainly interest rate swaps, currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Financial investments - available-for-sale

Available-for-sale financial assets valued using a valuation technique or pricing models primarily consist of unquoted equities and debt securities.

These assets are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

Other trading assets

Other trading assets valued using a valuation technique consists of certain debt securities. The Group values the securities using valuation models which use discounted cash flow analysis which incorporates either only observable data or both observable and non-observable data. Observable inputs include assumptions regarding current rates of interest and real estate prices; unobservable inputs include assumptions regarding expected future default rates, prepayment rates and market liquidity discounts.

Other liabilities designated at fair value through profit or loss

For unquoted notes issued, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity adjusted for market liquidity and credit spreads.

Determination of fair value and fair value hierarchy:

IFRS 7 requires classification of line items at fair value presented in the financial statements according to the defined levels. These levels depend on the observability of data used during fair value calculations. Classification for fair value is generated as followed below:

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

Assets and liabilities measured at fair value

June 30, 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit and loss				
Financial assets held for trading				
- Debt securities	44,391	-	-	44,391
- Equity securities	10,532	-	-	10,532
- Derivatives	-	661,663	-	661,663
Hedging derivatives	-	359,478	-	359,478
Available-for-sale financial assets				
- Investments securities - debt	13,240,060	1,759,365	-	14,999,425
- Investments securities - equity	-	31,595	-	31,595
Total assets	**13,294,983**	**2,812,101**	**-**	**16,107,084**
Financial liabilities at fair value through profit or loss				
- Derivatives	-	627,417	-	627,417
Hedging derivatives	-	497,205	-	497,205
Total liabilities	**-**	**1,124,622**	**-**	**1,124,622**

(Amounts expressed in thousands of TL unless otherwise indicated.)

4. Financial risk management (continued)

December 31, 2013	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss				
Financial assets held for trading				
- Debt securities	105,138	1,195	-	106,333
- Equity securities	20,469	-	-	20,469
- Derivatives	-	1,585,776	-	1,585,776
Hedging derivatives	-	467,627	-	467,627
Available-for-sale financial assets				
- Investments securities - debt	11,389,340	1,782,250	-	13,171,590
- Investments securities - equity	-	27,457	-	27,457
Total assets	**11,514,947**	**3,864,305**	**-**	**15,379,252**
Financial liabilities at fair value through profit or loss				
- Derivatives	-	863,633	-	863,633
Hedging derivatives	-	386,395	-	386,395
Total liabilities	**-**	**1,250,028**	**-**	**1,250,028**

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

In the current period, there is no transfer between Level 1 and Level 2.

The fair value amounts of the Group’s financial instruments disclosed in this note that are not carried at fair value in the financial statements categorised in Level 2 in the fair value hierarchy except investment securities (held-to-maturity) which are categorised in Level 1.

5. Cash and cash equivalents for the purpose of presentation in the consolidated statement of cash flows

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition:

	June 30, 2014	June 30, 2013
Cash and cash equivalents	2,563,260	1,640,700
Balances with central banks	17,505,057	14,140,349
Reserve deposits with central banks (-)	(14,613,944)	(11,070,715)
Loans and advances to banks (with original maturity less than 90 days) (+)	5,486,565	5,365,766
Other cash equivalents (+)	150,681	66,152
Total	**11,091,619**	**10,142,252**

The TL reserve requirement has been classified in Central Bank Unrestricted Account based on the correspondence with BRSA letter as of January 3, 2008.

The Bank keeps TL, USD, EUR and Gold reserve deposits for its TL and FX liabilities at Central Bank Accounts in accordance with the legislation of Central Bank numbered 2005/1, “Decree on Reserve Deposits”. No interest is applied to reserve deposits.

(Amounts expressed in thousands of TL unless otherwise indicated.)

5. Cash and cash equivalents for the purpose of presentation in the consolidated statement of cash flows (continued)

Foreign reserve requirements:

Reserve requirements of De Nederlandsche Bank represent reserve deposits equivalent to 2% of deposits and securities issued; excluding deposits with agreed maturity over two years or deposits redeemable at notice over 2 years, repos and debt securities issued with an agreed maturity over two years which are taken into calculation with a reserve ratio of 0%.

Reserve requirements of Central Bank of the Russian Federation represent reserve deposits equivalent to 4.25% of the liabilities to non-resident legal entities in all currencies, 4.25% of the liabilities to natural persons in all currencies, 4.25% of the other liabilities in all currencies.

Reserve requirements of National Bank of Azerbaijan represent reserve deposits equivalent to 3% (for AZN liabilities), 3% (for foreign currency liabilities) of the statutory balances of customer accounts, due to banks and other funds borrowed.

6. Financial assets held for trading

	June 30, 2014	December 31, 2013
Government bonds and treasury bills	44,321	54,967
Other debt securities	70	51,366
Total debt securities	**44,391**	**106,333**
Equity securities - listed	10,532	20,469
Total equity securities	**10,532**	**20,469**
Total trading securities	**54,923**	**126,802**
Derivative financial instruments (Note 7)	661,663	1,585,776
Total financial assets held for trading	**716,586**	**1,712,578**

Government bonds and treasury bills are discount and coupon securities issued by the Government of the Republic of Turkey. Other debt securities mainly represent A and B type open-ended mutual funds incorporated in Turkey managed by the Group and carried for resale to customers.

7. Derivative financial instruments and hedging activities

The Group utilizes the following derivative instruments with the general purpose of minimising market risk carried by balance sheet instruments and/or meeting customer demand:

"Currency forwards" represent commitments to purchase or sell foreign and domestic currency, including undelivered spot transactions. Forwards are customized contracts transacted in over-the-counter (OTC) market. The Group has credit exposure to the counterparties of forward contracts.

"Currency and interest rate swaps" are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates. Currency swaps involve the exchange of the principal as well. The Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation. This risk is monitored on an ongoing basis with reference to the current fair value and the liquidity of the market. To control the level of risk taken, the Group assesses counterparties using the same techniques as for its lending activities.

"Options" are contractual agreements that convey the right to the buyer and the obligations to the writer to buy or sell an asset at a specified price either at a fixed future date or at any time within a specified period. Major part of the Group's option book activity stems from the clients' needs; therefore to meet the client demands Group actively runs an option book on the residual open positions which are not fully covered. The Group is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.

"Interest rate cap and floor arrangements" provide the purchaser with the right to receive interest rate differential payments on a notional amount when the indexed rate is in excess of the specified cap rate and limits the benefit of reductions in interest rates if it occurs.

Credit derivatives are capital market tools designed to transfer credit risk from one party to another.

As of June 30, 2014, the Bank's credit derivatives portfolio is composed of "credit linked notes" (embedded derivatives are separated from host contract in line with IAS 39 and recorded as credit default swaps) and "credit default swaps". Credit default swaps are contracts, in which the seller commits to pay the contract value to the buyer in case of certain credit risk events in return for the premium paid by the buyer for the contract. Credit default swaps are valued daily while credit linked notes are valued monthly.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in foreign exchange rates and interest rates relative to their terms.

(Amounts expressed in thousands of TL unless otherwise indicated.)

7. Derivative financial instruments and hedging activities (continued)

June 30, 2014

	Contract/ notional amount (aggregate of buy and sell)	Fair values	
		Assets	Liabilities
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	7,287,565	60,533	36,673
Currency swaps	78,694,947	338,836	357,749
Over the counter ("OTC") currency options	11,342,644	61,227	68,987
Total OTC foreign exchange derivatives	**97,325,156**	**460,596**	**463,409**
Interest rate derivatives:			
Interest rate swaps	11,431,986	78,225	61,616
Cross-currency interest rate swaps	7,930,152	105,448	88,093
OTC interest rate options	6,168,184	-	7,789
Total OTC interest rate derivatives	**25,530,322**	**183,673**	**157,498**
Other derivatives[1]	**1,701,015**	**17,394**	**6,510**
Total derivative assets/ (liabilities) held for trading	**124,556,493**	**661,663**	**627,417**
Derivatives used for hedging			
Derivatives designated as fair value hedges:			
Cross-currency interest rate swaps	1,255,454	139,724	-
Derivatives designated as cash flow hedges:			
Interest rate swaps	36,660,046	219,754	497,205
Total derivative assets/ (liabilities) used for hedging	**37,915,500**	**359,478**	**497,205**
Total recognized derivative assets/ (liabilities)	**162,471,993**	**1,021,141**	**1,124,622**
Current		627,783	529,281
Non-current		393,358	595,341
Total recognized derivative assets/ (liabilities)	**162,471,993**	**1,021,141**	**1,124,622**

(1) Other derivatives include credit default swaps and security options. As at June 30, 2014 credit default swaps include insignificant amount of potential exposure to Eurozone sovereign countries.

(Amounts expressed in thousands of TL unless otherwise indicated.)

7. Derivative financial instruments and hedging activities (continued)

December 31, 2013

	Contract/ notional amount (aggregate of buy and sell)	Fair values Assets	Fair values Liabilities
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	9,463,616	97,865	55,680
Currency swaps	58,530,823	873,310	485,941
Over the counter ("OTC") currency options	12,647,254	181,421	153,821
Total OTC foreign exchange derivatives	**80,641,693**	**1,152,596**	**695,442**
Interest rate derivatives:			
Interest rate swaps	10,566,324	82,686	61,482
Cross-currency interest rate swaps	6,451,575	335,577	92,747
OTC interest rate options	4,860,652	-	5,948
Total OTC interest rate derivatives	**21,878,551**	**418,263**	**160,177**
Other derivatives[1]	**2,482,678**	**14,917**	**8,014**
Total derivative assets/ (liabilities) held for trading	**105,002,922**	**1,585,776**	**863,633**
Derivatives used for hedging			
Derivatives designated as fair value hedges:			
Cross-currency interest rate swaps	2,610,975	307,375	-
Derivatives designated as cash flow hedges:			
Interest rate swaps	35,017,718	160,252	386,395
Total derivative assets/ (liabilities) used for hedging	**37,628,693**	**467,627**	**386,395**
Total recognized derivative assets/ (liabilities)	**142,631,615**	**2,053,403**	**1,250,028**
Current		1,356,235	766,879
Non-current		697,168	483,149
Total recognized derivative assets/ (liabilities)	**142,631,615**	**2,053,403**	**1,250,028**

(1) Other derivatives include credit default swaps and security options. As at December 31, 2013 credit default swaps include insignificant amount of potential exposure to Eurozone sovereign countries.

Fair value hedges

Starting from March 1, 2011, the Group has hedged the possible fair value effects of changes in market interest rates on part of its fixed interest TL mortgage and car loan portfolios and fair value effects of changes in foreign exchange rates on part of its foreign currency denominated deposits using cross-currency interest rate swaps. The net carrying value of hedging derivatives at June 30, 2014 is an asset amounting to TL 139,724 (2013 - asset TL 307,375). At June 30, 2014, the marked to market difference of the hedging derivatives since the inception date of the hedge relationship is TL 155,702 gain (2013 - TL 195,179 loss), the fair value difference of the hedged items is TL 3,160 liability (2013 –TL 5,113 liability) and their changes in the fair value for the year amounts to TL 1,954 asset (2013 - liability TL 153,748).

(Amounts expressed in thousands of TL unless otherwise indicated.)

7. Derivative financial instruments and hedging activities (continued)

Cash flow hedges

The Group is exposed to variability in future interest cash flows on non-trading assets and liabilities which bear interest at a variable rate. The Group uses interest rate swaps as cash flow hedges of these interest rate risks.

In order to hedge its cash flow risk from liabilities, the Group started to apply cash flow hedge accounting from January 1, 2010 onwards. The hedging instruments are USD, EUR and TL interest rate swaps with floating receive, fixed pay legs, and the hedged item is the cash outflows due to financing of interests of repricing USD, EUR and TL customer deposits, repos and borrowings.

Net gain on cash flow hedges reclassified to the statement of income

The net gain / (loss) on cash flow hedges reclassified to the statement of income during the six month periods ended June 30 was as follows:

	June 30, 2014	June 30, 2013
Net interest income / (expense)	(58,508)	(196,933)
Taxation	11,702	39,387

As of June 30, 2014, a loss of TL 7,579 (June 30, 2013 – TL 301) was recognized in the statement of income due to hedge ineffectiveness from cash flow hedges.

As of June 30, 2014 net accumulated losses arising from cash flow hedges recognized under equity, net of reclassification to statement of income and net of tax, is TL 296,658 (December 31, 2013 - 115,117).

Net investment hedges

The Group hedges part of the currency translation risk of net investments in foreign operations through foreign currency borrowings.

The Group’s Euro denominated borrowing is designated as a hedge of the net investment in the Group’s certain EUR denominated subsidiaries. The total amount of the borrowing designated as a hedge of the net investment at June 30, 2014 is EUR 279 million (2013 - EUR 275 million). The foreign exchange loss of TL 241,756 (June 30, 2013 - TL 154,220 loss), net of tax, on translation of the borrowing to TL at the statement of financial position date is recognized in “other reserves” in equity.

No ineffectiveness from hedges of net investments in foreign operations was recognized in profit or loss during the period (June 30, 2013 - None).

(Amounts expressed in thousands of TL unless otherwise indicated.)

8. Loans and advances to customers

June 30, 2014

	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Performing loans	69,369,646	19,157,786	16,588,547	4,300,809	1,915,371	111,332,159
Watch listed loans	1,809,292	1,144,744	523,861	143,283	26,777	3,647,957
Loans under legal follow - up	2,367,914	918,460	543,684	244,527	62,533	4,137,118
Gross	**73,546,852**	**21,220,990**	**17,656,092**	**4,688,619**	**2,004,681**	**119,117,234**
Specific allowance for impairment	(1,771,685)	(552,096)	(330,498)	(189,898)	(56,107)	(2,900,284)
Collective allowance for impairment	(528,293)	(170,183)	(109,543)	(21,286)	(9,575)	(838,880)
Total allowance for impairment	**(2,299,978)**	**(722,279)**	**(440,041)**	**(211,184)**	**(65,682)**	**(3,739,164)**
Net	**71,246,874**	**20,498,711**	**17,216,051**	**4,477,435**	**1,938,999**	**115,378,070**

December 31, 2013

	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Performing loans	60,936,439	17,736,424	18,488,941	3,813,930	2,091,266	103,067,000
Watch listed loans	1,236,814	887,111	293,682	92,780	43,659	2,554,046
Loans under legal follow - up	2,272,055	839,916	437,076	240,940	80,419	3,870,406
Gross	**64,445,308**	**19,463,451**	**19,219,699**	**4,147,650**	**2,215,344**	**109,491,452**
Specific allowance for impairment	(1,563,481)	(557,763)	(267,205)	(171,246)	(73,011)	(2,632,706)
Collective allowance for impairment	(444,975)	(122,361)	(122,920)	(18,887)	(9,022)	(718,165)
Total allowance for impairment	**(2,008,456)**	**(680,124)**	**(390,125)**	**(190,133)**	**(82,033)**	**(3,350,871)**
Net	**62,436,852**	**18,783,327**	**18,829,574**	**3,957,517**	**2,133,311**	**106,140,581**

The loans amounting to TL 1,188,432 (at amortized cost) included in the performing loans and advances to consumers have been designated as hedged items in fair value hedges as of June 30, 2014 (December 31, 2013 - TL 1,983,314). Those loans have been hedged with interest rate swaps as part of a documented interest rate risk management strategy. The carrying values of such loans that are hedged items in fair value hedges, and otherwise carried at amortized cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

Reconciliation of impairment allowance account for losses on loans and advances by class is as follows:

						June 30, 2014
	Corporate	**Consumer**	**Credit cards**	**Leasing**	**Factoring**	**Total**
At January 1	**2,008,456**	**680,124**	**390,125**	**190,133**	**82,033**	**3,350,871**
Provision for loan impairment	349,843	75,183	145,453	29,432	6,489	606,400
Amounts recovered during the year	(29,324)	(6,230)	(63,823)	(8,381)	(357)	(108,115)
Loans sold during the year as uncollectible (-)	(30,706)	(26,315)	(31,637)	-	(22,483)	(111,141)
Exchange differences	1,709	(483)	(77)	-	-	1,149
At June 30	**2,299,978**	**722,279**	**440,041**	**211,184**	**65,682**	**3,739,164**

(Amounts expressed in thousands of TL unless otherwise indicated.)

8. Loans and advances to customers (continued)

						December 31, 2013
	Corporate	**Consumer**	**Credit cards**	**Leasing**	**Factoring**	**Total**
At January 1	**1,540,570**	**453,307**	**390,376**	**157,780**	**58,944**	**2,600,977**
Provision for loan impairment	490,324	350,293	189,385	68,796	26,219	1,125,017
Amounts recovered during the year	(12,570)	(124,155)	(25,111)	(36,439)	(3,130)	(201,405)
Loans written off during the year as uncollectible (-) [1]	(19,147)	(400)	(164,571)	(4)	-	(184,122)
Exchange differences	9,279	1,079	46	-	-	10,404
At December 31	**2,008,456**	**680,124**	**390,125**	**190,133**	**82,033**	**3,350,871**

[1] Includes the effect of provision releases due to sales from loans under legal follow - up.

The Parent Bank sold part of its non-performing loans (from credit cards and consumer portfolio) amounting to nominal TL 96,578 which is fully provisioned to Destek Varlık Yönetimi A.Ş. and Girişim Varlık Yönetimi A.Ş. for TL 15,540, in accordance with the Board of Directors' decision dated on June 25, 2014.

The calculation of net investment in direct finance leases is as follows:

	June 30, 2014	December 31, 2013
Gross investment in direct finance leases	5,444,203	4,726,526
Unearned finance income	(826,222)	(640,316)
	4,617,981	**4,086,210**
Interest accrual on receivables	45,838	40,287
Receivables from outstanding lease payments	24,800	21,153
Provision for impaired lease receivables	(211,184)	(190,133)
Net investment in direct finance leases	**4,477,435**	**3,957,517**

Lease payments receivable consists of rentals over the terms of leases. The rentals according to maturity are as follows:

	June 30, 2014	December 31, 2013
Less than 1 year	1,832,825	1,788,794
More than 1 year but not later than 5 years	2,807,943	2,510,097
Later than 5 years	486,263	155,355
Less: unearned finance income	(826,222)	(640,316)
Investment in performing lease receivables	**4,300,809**	**3,813,930**

(Amounts expressed in thousands of TL unless otherwise indicated.)

9. Investment securities

(i) Securities available-for-sale

	June 30, 2014	December 31, 2013
Debt securities - at fair value:		
Government bonds and treasury bills	9,987,329	7,389,524
Eurobonds	1,857,804	1,569,463
Government and corporate bonds and treasury bills sold under repurchase agreements	275,481	516,599
Eurobonds sold under repurchase agreements	590,606	1,803,448
Other	2,288,205	1,892,556
Equity securities - at fair value:		
Listed	-	-
Unlisted	44,017	39,879
Total securities available-for-sale	**15,043,442**	**13,211,469**

Government bonds, treasury bills and Eurobonds are discount and coupon securities issued by the Government of the Republic of Turkey. Other securities mainly represent A and B type open-ended mutual funds incorporated in Turkey managed by the Group and credit linked notes and other bonds issued by domestic and foreign financial institutions.

There are no impairments recognized for available-for-sale debt securities.

(ii) Securities held-to-maturity

	June 30, 2014	December 31, 2013
Debt securities - at amortized cost - listed:		
Government bonds and treasury bills	2,652,003	2,944,089
Eurobonds	2,385,522	1,614,901
Government bonds and treasury bills sold under repurchase agreements	214,723	656,257
Eurobonds sold under repurchase agreement	508,058	1,312,121
Foreign government bonds	302,771	362,235
Total securities held-to-maturity	**6,063,077**	**6,889,603**

(Amounts expressed in thousands of TL unless otherwise indicated.)

10. Deposits from banks

		June 30, 2014			December 31, 2013	
	Demand	**Term**	**Total**	**Demand**	**Term**	**Total**
Foreign currency:						
Domestic banks	44,299	422,544	466,843	499	2,936	3,435
Foreign banks	51,377	711,850	763,227	105,836	807,939	913,775
Funds deposited under repurchase agreements	-	1,027,397	1,027,397	-	3,143,784	3,143,784
	95,676	**2,161,791**	**2,257,467**	**106,335**	**3,954,659**	**4,060,994**
TL:						
Domestic banks	53,087	501,512	554,599	360,396	530,059	890,455
Foreign banks	110,365	25,629	135,994	73,971	491,284	565,255
Funds deposited under repurchase agreements	-	161,167	161,167	-	221,320	221,320
	163,452	**688,308**	**851,760**	**434,367**	**1,242,663**	**1,677,030**
Total deposit from banks	**259,128**	**2,850,099**	**3,109,227**	**540,702**	**5,197,322**	**5,738,024**

11. Customer deposits

		June 30, 2014			December 31, 2013	
	Demand	**Term**	**Total**	**Demand**	**Term**	**Total**
Foreign currency deposits:						
Saving deposits	2,899,558	15,697,190	18,596,748	2,863,270	17,313,555	20,176,825
Commercial deposits	4,048,936	20,175,211	24,224,147	3,498,807	19,418,896	22,917,703
	6,948,494	**35,872,401**	**42,820,895**	**6,362,077**	**36,732,451**	**43,094,528**
TL deposits:						
Saving deposits	2,969,048	23,559,896	26,528,944	2,767,927	21,016,490	23,784,417
Commercial deposits	4,205,135	17,683,283	21,888,418	4,081,450	11,837,030	15,918,480
Funds deposited under repurchase agreements	-	53,707	53,707	-	29,118	29,118
Public sector deposits	2,250,059	659,813	2,909,872	715,021	2,596,415	3,311,436
	9,424,242	**41,956,699**	**51,380,941**	**7,564,398**	**35,479,053**	**43,043,451**
Total customers deposits	**16,372,736**	**77,829,100**	**94,201,836**	**13,926,475**	**72,211,504**	**86,137,979**

12. Funds borrowed

	June 30, 2014	**December 31, 2013**
Foreign institutions and banks		
Syndication loans	5,693,626	5,745,888
Subordinated debt	4,286,142	4,338,204
Other	12,132,676	12,041,380
Total foreign	**22,112,444**	**22,125,472**
Domestic banks	1,731,890	1,504,299
Interbank money market and Settlement Custody Bank	2,538,579	2,211,064
Total domestic	**4,270,469**	**3,715,363**
	26,382,913	**25,840,835**

12. Funds borrowed (continued)

On March 31, 2006, Yapı Kredi obtained a subordinated loan amounting to EUR 500 million, with 10 years maturity and a repayment option at the end of five years. The interest rate is EURIBOR+3% (for the first five years it was EURIBOR+2%). The loan was obtained from Merrill Lynch Capital Corporation with UniCredito Italiano S.p.A. as guarantor.

The Parent Bank obtained a subordinated loan on June 25, 2007 amounting to EUR 200 million, with 10 years maturity and a repayment option at the end of 5 years. The interest rate is determined as EURIBOR+1,85% for the first 5 years and EURIBOR+2,78% for the remaining 5 years. The loan was obtained from Citibank, N.A., London Branch with Unicredito Italiano SpA as guarantor. The Parent Bank has not exercised the early repayment option related to these two loans which was available as of the date of these financial statements.

With the written approvals of the BRSA dated May 2, 2006 and June 19, 2007, the loans have been approved as subordinated loans and can be taken into consideration as supplementary capital within the limits of the Regulation Regarding Banks' Shareholders' Equity. According to the Regulation, subordinated loans obtained from Merrill Lynch Capital Corporation considered in the supplementary capital calculation at the rate of 20% since the remaining maturity of these loans is less than 2 years. Subordinated loans obtained from Citibank, N.A. London Branch is considered in the supplementary capital calculation at the rate of 40% since the remaining maturity of this loan is less than 3 years.

The Parent Bank had early repaid its borrowing for USD 585 million on January 9, 2013 which was received from Unicredit Bank Austria AG on February 22, 2012 with an interest rate of 3 months Libor + 8,30% and received another subordinated borrowing from the same counterparty for USD 585 million with 10 years of maturity (payable after 5 years) and 5,5% of fixed interest rate. The Parent Bank incurred an early payment fee for TL 57 million with respect to early closing of this subordinated loan. As per the approval of BRSA dated December 31, 2012 this loan is accepted as subordinated loan.

The Parent Bank obtained a subordinated loan on 18 December 2013 amounting to USD 470 million, with 10 years maturity and a repayment option at the end of 5 years. The interest rate is determined as 6.35% for the first 5 years and midswap+4.68% for the remaining 5 years. The loan was obtained from Unicredit Bank Austria AG.

The Parent Bank had early repaid its borrowing for EUR 350 million on December 21, 2013 which was received from Goldman Sachs International Bank and received another subordinated borrowing from the Bank Austria for USD 470 million with 10 years of maturity (payable after 5 years) and with an interest rate 6,35% for the first 5 years and midswap+%4,68 for the remaining 5 years. This loan considered as supplementary capital in accordance with the "Regulation on Own Fund of Banks".

On 27 September 2013, the Parent Bank obtained a syndicated loan from 37 international banks, comprised of two tranches in the amount of USD 302.5 million and EUR 657 million with total cost of LIBOR + 0.75% and EURIBOR + 0.75%, respectively. The loan is under a dual tranche multi-currency term loan facility agreement and it replaced the syndicated loan that was signed in September 2012.

On 30 April 2014, the Parent Bank signed a one year dual tranche dual-currency club term loan facility comprising a USD 319.1 million and EUR 852.6 million. This syndication refinanced the Bank's existing syndicated refinanced the Bank's existing syndicated loan signed in April 2013 with a roll-over ratio above 100%. The all-in cost was LIBOR / EURIBOR plus + 0.90% per annum.

(Amounts expressed in thousands of TL unless otherwise indicated.)

13. Debt securities in issue

In December 2006, the Group finalized a diversified payment rights securitization transaction of USD 800 million and EUR 300 million by securitizing its foreign currency denominated present and future remittances created via payment orders. Notes issued under the diversified payment rights ("DPR") programme were issued by the Parent Bank. There were four tranches, which were insured by the monoline companies namely; Assured Guaranty Corporation, MBIA Insurance Corporation, Radian Asset Assurance Inc., and Ambac Assurance Corporation.

The Group had repaid USD 310 million of the credit as of March 1, 2007 when it issued an additional USD 400 million of notes under the DPR programme. The additional issuance was composed of two tranches, one for EUR 115 million and one for USD 250 million, insured by Financial Guaranty Insurance Company and XL Capital Assurance Inc., respectively.

On May 26, 2010, the Bank mandated Standard Bank plc and UniCredit Bank AG London Branch for an exchange offer of these monoline wrapped notes with unwrapped notes. Investors were given the option to exchange USD 600 million of original monoline wrapped notes (volume at face value, USD equivalent) with unwrapped notes having the same maturity but with a higher coupon.

On August 19, 2011, Yapi Kredi Diversified Payment Rights Finance Company ("Structured Entity") issued four additional tranches amounting to EUR 130 million and USD 225 million for the benefit of the Bank under the DPR programme, on a private placement basis with the involvement of four commercial banks and two supranational. The transaction has a maturity of five years with a two-year grace period.

On September 22, 2011, the Structured Entity issued another EUR 75 million notes for the benefit of the Bank through Series 2011-E Notes under the same DPR programme. The notes were privately placed with a supranational institution. The series has a final maturity of 12 years.

On December 6, 2012, the Bank finalized a subordinated debt issuance of USD 1 billion with a 10 year maturity at a 5.5% coupon rate. The proceeds of the issuance have been qualified for Tier 2 capital treatment.

In November 2012, the Bank concluded an SME-backed, TL 458,000 covered bond programme with 3 to 5 years. All series were privately placed with investors.

On February 8, 2012, the Bank issued USD 500 million 6.750% notes due 2017. The interest on the notes will be paid semi-annually with the principal payment due at maturity.

On July 26, 2013, five new tranches were issued from the Parent Bank's DPR securitisation programme and the total proceeds amount to EUR 115 million and USD 355 million, with four series having a final maturity of five years and one series with a 13-year final maturity. The transaction was a private placement with the involvement of four commercial banks and one supranational.

On January 22, 2013, the Parent Bank issued bonds for non-Turkish residents; individuals and corporate entities amounting to USD 500 million nominal value with a semi-annual coupon at an interest rate of 4% with a maturity of January 22, 2020.

On December 6, 2013 the Bank issued USD 500 million 5.25% notes due 2018. The interest on the notes will be paid semi-annually with the principal payment due at maturity.

	June 30, 2014	**December 31, 2013**
Securitization borrowings	2,180,054	2,576,083
Subordinated debt	2,131,510	2,142,778
Bills	3,562,105	1,992,970
Bonds	4,310,619	3,853,790
	12,184,288	**10,565,621**

(Amounts expressed in thousands of TL unless otherwise indicated.)

14. Taxation

	June 30, 2014	June 30, 2013
Current tax expense from continuing operations	(552,291)	(148,544)
Deferred tax income / (expense) from continuing operations	272,223	(184,427)
Income tax expense from continuing operations	**(280,068)**	**(332,971)**
Current tax expense from discontinued operations	-	(10,009)
Deferred tax income / (expense) from discontinued operations	-	-
Income tax expense from discontinued operations	**-**	**(10,009)**
Total income tax expense	**(280,068)**	**(342,980)**

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

Deferred income taxes

For all domestic subsidiaries and the Parent Bank, deferred income taxes are calculated on temporary differences that are expected to be realized or settled under the liability method using a principal tax rate of 20% at June 30, 2014 (December 31, 2013 - 20%).

For foreign subsidiaries deferred income taxes are calculated on all temporary differences under the liability method using the principal tax rates at June 30, 2014 and December 31, 2013 which are as follows:

		Tax rate (%)
Country of incorporation	**June 30, 2014**	**December 31, 2013**
Russia	20.00	20.00
Netherlands	25.00	25.00
Azerbaijan	20.00	20.00

The deferred income tax assets and liabilities represent the tax effect of temporary differences arising due to the different treatment of certain items of income and expenses included in the financial statements compared to the local tax return in accordance with the applicable tax law plus any available tax loss carried forward from previous years.

The temporary differences giving rise to the deferred income tax assets and deferred income tax liabilities are as follows:

	Cumulative Temporary Differences		**Deferred Tax Asset/Liability**	
	June 30, 2014	**December 31, 2013**	**June 30, 2014**	**December 31, 2013**
Impairment on assets	501,841	496,148	62,615	61,477
Allowance for loan impairment	1,126,181	989,893	223,610	195,420
Pension benefits transferable to the Social Security Institution (“SSI”)	715,647	767,131	143,129	153,426
Reserve for employment termination benefits	121,246	122,718	24,803	25,081
Revaluation of derivative instruments at fair value	1,134,878	1,262,940	229,315	276,380
Valuation differences on investment securities	252,907	20,709	51,579	5,240
Other	737,495	622,954	146,940	123,305
Deferred income tax assets	**4,590,195**	**4,282,493**	**881,991**	**840,329**
Difference between carrying value and tax base of property and equipment	628,158	620,621	77,550	75,903
Valuation differences on investment securities	601,575	210,645	120,315	42,130
Revaluation of derivative instruments at fair value	1,127,851	2,176,864	223,874	447,867
Other	63,677	68,117	12,729	13,544
Deferred income tax liabilities	**2,421,261**	**3,076,247**	**434,468**	**579,444**
Deferred income tax assets, net	**2,168,934**	**1,206,246**	**447,523**	**260,885**

(Amounts expressed in thousands of TL unless otherwise indicated.)

15. Other provisions

	June 30, 2014	December 31, 2013
Provision for losses on credit related commitments	334,887	301,481
Tax and other legal provisions	230,975	216,370
Provision on export commitment estimated liability	42,053	41,007
Provisions on credit cards and promotion campaigns	27,622	28,804
Other	47,561	57,425
	683,098	**645,087**

Credit related commitments provision

The Group management has estimated losses that may arise from credit related commitments and has recognized a provision of TL 334,887 (2013 - TL 301,481).

Tax and other legal provisions

The Group has recorded a provision of TL 76,338 (2013 - TL 68,691) for litigation and has accounted for it in the financial statements under the "Other provisions" account. Except for the cases where provisions are recorded, management considers that negative result in ongoing litigations resulting in cash outflows is not probable.

The Group also recorded total provision of TL 154,637 (2013 - TL 147,679) against potential tax risks in the form of possible tax duties and penalties in the consolidated financial statements for the year ended June 30, 2014.

Export commitment provision

The Group management has estimated losses that may arise from export loans to customers under legal follow-up that do not have the ability to fulfill their export commitments and has recognized provision of TL 42,053 (2013 - TL 41,007).

Movement in other provisions is as follows:

	Provision for credit related commitments	Tax and other legal provisions	Provisions on credit cards and promotion campaigns	Export commitment provisions	Other	June 30, 2014 Total	December 31, 2013 Total
At January 1	**301,481**	**216,370**	**28,804**	**41,007**	**57,425**	**645,087**	**682,019**
Provision charged	33,410	16,252	63,854	1,046	5,496	120,058	285,144
Provision used	-	(1,647)	(65,029)	-	(15,360)	(82,036)	(320,662)
Sale of a subsidiary	-	-		-	-		(1,511)
Translation difference	(4)	-	(7)	-	-	(11)	97
Balance at June 30	**334,887**	**230,975**	**27,622**	**42,053**	**47,561**	**683,098**	**645,087**

(Amounts expressed in thousands of TL unless otherwise indicated.)

16. Retained earnings and other reserves

	June 30, 2014	December 31, 2013
Statutory reserve	641,025	463,811
Translation reserves	467,766	488,605
Revaluation reserve - available-for-sale investments	425,195	(80,805)
Hedging reserves	(538,413)	(366,777)
Revaluation of property, plant and equipment	12,407	-
Re-measurement gains on defined benefit liability	6,046	6,046
Total other reserves	**1,014,026**	**510,880**
Retained earnings	**14,154,033**	**13,735,847**

Movements in other reserves were as follows:

	Statutory reserves	Revaluation reserves	Translation reserves	Hedging reserves	Revaluation of fixed assets	Actuarial gains	Total
At January 1, 2013	**463,811**	**(80,805)**	**488,605**	**(366,777)**	**-**	**6,046**	**510,880**
Net change in available-for-sale investments, net of tax	-	506,000	-	-	-	-	506,000
Gains / (losses) on hedges of a net investment in a foreign operation	-		-	9,905	-	-	9,905
Gains / (losses) on cash flow hedges	-		-	(181,541)	-	-	(181,541)
Currency translation differences	-	-	(20,839)	-	-	-	(20,839)
Revaluation of property, plant and equipment, net of tax	-	-	-	-	12,407	-	12,407
Transfer to statutory reserves	177,214	-	-	-	-	-	177,214
At June 30, 2014	**641,025**	**425,195**	**467,766**	**(538,413)**	**12,407**	**6,046**	**1,014,026**

	Statutory reserves	Revaluation reserves	Translation reserves	Hedging reserves	Revaluation of fixed assets	Actuarial gains	Total
At January 1, 2013	**359,872**	**1,524,900**	**211,065**	**(668,087)**	**-**	**-**	**1,427,750**
Net change in available-for-sale investments, net of tax	-	(1,085,372)	-	-	-	-	(1,085,372)
Gains / (losses) on hedges of a net					-	-	
investment in a foreign operation	-	-	-	(46,946)	-	-	(46,946)
Gains / (losses) on cash flow hedges	-	-	-	336,448	-	-	336,448
Currency translation differences	-	-	92,238	-	-	-	92,238
Transfer to statutory reserves	103,938	-	-	-	-	-	103,938
At June 30, 2013	**463,810**	**439,528**	**303,303**	**(378,585)**	**-**	**-**	**828,056**

Retained earnings as per the statutory financial statements other than statutory reserves are available for distribution, subject to the statutory reserve requirement referred to below.

Under the Turkish Commercial Code, the Group is required to create the following statutory reserves from appropriation of earnings, which are available for distribution only in the event of liquidation or losses:

a) First statutory reserve, appropriated at the rate of 5% of net income, until the total reserve is equal to 20% of issued and fully paid-in share capital.

b) Second statutory reserve, appropriated at the rate of at least 10% of distribution in excess of 5% of issued and fully paid-in share capital, without limit. It may be used to absorb losses.

After deducting taxes and setting aside the statutory reserves as discussed above, the remaining balance of statutory net profit is available for distribution to shareholders.

As per the Ordinary General Assembly meeting dated March 27, 2014, it has been decided that TL 388,000 is to be paid as dividend to shareholders.

(Amounts expressed in thousands of TL unless otherwise indicated.)

17. Net trading, hedging and fair value income and net gains / losses from investment securities

	June 30, 2014	June 30, 2013
Foreign exchange:		
- Transaction gains less losses on derivatives and securities	259,664	(544,520)
Interest rate instruments	(257,287)	532,416
Equities	4,138	41
Credit derivatives	4,218	(3,930)
	10,733	**(15,993)**

Foreign exchange net trading income includes gains and losses from spot and forward contracts, options, futures and translated foreign currency assets and liabilities. Interest rate instruments includes the results of making markets in instruments in government securities, money market instruments, interest rate and cross currency interest rate swaps, options, hedge items and other derivatives.

Net gains from investment securities amounting to TL 87,654 (2013 - TL 318,302 gains) comprise of net results on sales of investment securities.

18. Other operating expenses

	June 30, 2014	June 30, 2013
Staff costs	**(893,152)**	**(781,315)**
Depreciation on property and equipment	(80,566)	(83,359)
Amortization of intangible assets	(52,530)	(38,176)
Depreciation and amortization	**(133,096)**	**(121,535)**
(Impairment charge) / reversal of impairment on property and equipment	379	-
Impairment (charge) / reversal	**379**	**-**
Rent expenses	(109,169)	(90,738)
Marketing and advertisement costs	(68,762)	(53,169)
Sundry taxes and duties	(59,611)	(50,097)
Payment to Saving Deposit Insurance Fund	(59,373)	(52,798)
Communication expenses	(58,173)	(54,351)
Repair and maintenance expenses	(30,448)	(29,482)
Audit and consultancy fees	(25,581)	(21,600)
Utilities expenses	(22,359)	(22,896)
Charities	(931)	(521)
Other	(261,766)	(226,176)
General and administrative expenses	**(696,173)**	**(601,828)**
Total	**(1,722,042)**	**(1,504,678)**

(Amounts expressed in thousands of TL unless otherwise indicated.)

19. Earnings per share

Earnings per share disclosed in the consolidated statements of income is determined by dividing the net income attributable to the equity holders of the Parent by the weighted average number of ordinary shares outstanding during the period concerned.

In Turkey, companies can increase their share capital by making a pro-rata distribution of shares (“bonus shares”) to existing shareholders from retained earnings. For the purpose of earnings per share computations, the weighted average number of shares outstanding during the period is adjusted in respect of bonus shares issued without a corresponding change in resources by giving them a retroactive effect for the period in which they were issued and for each earlier period.

The Bank has not issued any shares attributable to transfers to share capital from retained earnings during the period ended June 30, 2014 (June 30, 2013 - none).

The earnings attributable to basic shares for each period are as follows

	June 30, 2014	June 30, 2013
Profit attributable to equity holders of the Parent	983,400	1,383,274
Weighted average number of ordinary shares in issue (thousand) (1 Kr each)	434,705,128	434,705,128
Basic and diluted earnings per share (expressed in TL, full amount per thousand share)	**2.26**	**3.18**

	June 30, 2014	June 30, 2013
Profit attributable to equity holders of the Parent for continuing operations	983,400	1,343,707
Weighted average number of ordinary shares in issue (thousand) (1 Kr each)	434,705,128	434,705,128
Basic and diluted earnings per share for continuing operations (expressed in TL, full amount per thousand share)	**2.26**	**3.09**

(Amounts expressed in thousands of TL unless otherwise indicated.)

20. Assets pledged and restricted

The Group has the following assets pledged as collateral:

	June 30, 2014		December 31, 2013	
	Assets	**Related liability**	**Assets**	**Related liability**
Investment securities	4,184,510	1,759,074	6,643,253	3,595,247
Other assets pledged [1]	410,737	-	322,360	-
Total	**4,595,247**	**1,759,074**	**6,965,613**	**3,595,247**

(1) Other assets pledged represent collateral given to the counter parties of the derivative transactions and the additional collaterals given in relation to the funds obtained under repurchase agreements.

No trading securities are held as collateral as of June 30, 2014 (December 31, 2013 – None.)

Available-for-sale and held-to-maturity securities whose total carrying amount is TL 2,163,692 as of June 30, 2014 (2013 - TL 4,526,628) are pledged to banks and other financial institutions against borrowed funds and funds obtained under repurchase agreements and total return swap transactions. Total amount of funds obtained under repurchase agreements and total return swaps is TL 1,759,074 as of June 30, 2014 (2013 - TL 3,395,247). In accordance with the terms of the agreements with these financial institutions ("transferees"), the Bank provides these collaterals (debt instruments as given above) to the transferees and the transferees have the right to sell or repledge the collaterals until the expiry date of the agreements.

Securities are also pledged to regulatory authorities for legal requirements and other financial institutions as a guarantee for stock exchange and money market operations. These are mainly the CBRT, Istanbul Stock Exchange (ISE) Settlement and Custody Bank and other financial institutions and amount to TL 2,020,818 (2013 - TL 2,116,625).

As of June 30, 2014, the Group's reserve deposits that are not available for unrestricted use, including those at foreign central banks, amount to TL 17,505,057 (December 31, 2013 - TL 17,068,838). There is also TL 185,575 (2013 - TL 203,519) of deposits blocked held in foreign bank accounts.

The Group does not have any financial assets and liabilities that are offset in the financial statements and subject to an enforceable master netting agreement or similar agreements. In addition, the Group and its counterparties do not intend to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

The Group receives and gives collateral in the form of cash and marketable securities in respect of the above transactions summarized in the above table.

21. Commitments and contingent liabilities

In the normal course of its activities, the Group undertakes various commitments and incurs certain contingent liabilities that are not presented in these financial statements, including letters of guarantee, acceptances and letters of credit. The following is a summary of significant commitments and contingent liabilities.

Legal proceedings

Due to the nature of its business, the Group is involved in a number of claims and legal proceedings, arising in the ordinary course of business. The Group recognizes provisions for such matters when, in the opinion of management and its professional advisors, it is probable that a payment will be made by the Group, and the amount can be reasonably estimated (Note 15).

(Amounts expressed in thousands of TL unless otherwise indicated.)

21. Commitments and contingent liabilities (continued)

In respect of the further claims asserted against the Group, which according to the principles outlined above, have not been provided for, it is the opinion of the management and its professional advisors that such claims are either without merit, can be successfully defended or will not have a material adverse effect on the Group's financial position.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as and if required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment.

The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

As of June 30, 2014 the Group's commitments for unused credit card limits amounted to TL 24.054.810 (December 31, 2013 - TL 21,610,762).

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contracts, the maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.

June 30, 2014[(1)]	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	4,485,227	2,592,255	113,334	793	7,191,609
Letter of guarantees	17,173,530	7,969,604	5,178,903	214,815	30,536,852
Acceptance credits	159,970	-	-	-	159,970
Other commitments	465,677	4,098,125	347,486	483,783	5,395,071
Total	**22,284,404**	**14,659,984**	**5,639,723**	**699,391**	**43,283,502**

December 31, 2013[(1)]	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	4,200,894	2,203,350	305,441	796	6,710,481
Letter of guarantees	14,985,676	3,699,173	8,030,583	931,867	27,647,299
Acceptance credits	118,686	-	-	-	118,686
Other commitments	328,556	1,731,701	1,156,224	394,969	3,611,450
Total	**19,633,812**	**7,634,224**	**9,492,248**	**1,327,632**	**38,087,916**

(1) Based on original maturities.

22. Segment analysis

The Group carries out its banking operations through three main business units: (1) Retail Banking (including credit cards and SME banking), (2) Corporate and Commercial Banking (3) Private Banking and Wealth Management.

The Group's Retail Banking activities include card payment systems, SME (small medium size enterprises) banking and individual banking. Retail Banking products and services offered to customers include card payment systems, consumer loans (including general purpose loans, auto loans, mortgages), commercial installment loans, SME loans, time and demand deposits, gold banking, investment accounts, life and non-life insurance products and payroll services. Card payment systems cover the management of products, services, campaigns for member merchants as well as the sales and activities for a variety of customer types. Crystal, Play, Adios and Taksitçi are the other card brands providing services for the different segments within the World brand, shopping and marketing platform of the Bank. The Bank also offers debit card and a prepaid card named World Hediye Card.

Corporate and Commercial Banking segment is organized into three subgroups: Corporate Banking for large-scale companies, Commercial Banking for medium-sized enterprises and Multinational Companies Banking for multinational companies. Corporate and Commercial Banking, has a product range of working capital finance, trade finance, project finance, domestic and international non-cash loans such as letters of credit and letters of guarantee, cash management and internet banking.

Through its Private Banking and Wealth Management activities, the Bank serves high net worth customers and delivers investment products to this customer segment. Among the products and services offered to Private Banking customers are time deposit products, capital guaranteed funds, mutual funds, Type A Type B funds, derivative products such as forwards, futures and options in domestic futures exchange (VOB) and international markets, personal loans, foreign exchange, gold and equity trading, pension plans, insurance products and 7/24 safe deposit boxes and e-banking services. Also, personal art advisory, inheritance advisory, real estate advisory, tax advisory and philanthropic advisory are offered within the Private Banking and Wealth Management activities.

The Group's widespread branch network and alternative distribution channels including ATMs, telephone banking, internet banking and mobile banking are utilized to serve customers in all segments. Foreign operations include the Group's banking transactions in the Netherlands, Azerbaijan and Russia. Treasury, Asset – Liability Management and other operations, mainly consist of treasury management's results, operations of supporting business units and other unallocated transactions.

The below table is prepared in accordance with the Management Information System (MIS) data of the Group.

(Amounts expressed in thousands of TL unless otherwise indicated.)

22. Segment analysis (continued)

The Group’s management manages segment performance based on IFRS consolidated figures.

June 30, 2014	Retail banking	Corporate banking Commercial banking	Private banking wealth management	Foreign operations	Domestic operations	Insurance	Treasury, asset liability man. & Other[1]	Consolidation adjustments[2]	Group
Segment revenue[3]	1,439,796	972,993	102,348	109,968	252,842	-	862,942	(182,034)	3,558,855
Segment expenses[3]	(1,457,385)	(266,595)	(42,124)	(61,497)	(93,468)	-	(394,164)	3,185	(2,312,048)
Segment result	(17,589)	706,398	60,224	48,471	159,374	-	468,778	(178,849)	1,246,807
Operating profit	**(17,589)**	**706,398**	**60,224**	**48,471**	**159,374**	**-**	**468,778**	**(178,849)**	**1,246,807**
Share of results of associates and joint ventures	-	-	-	-	-	-	16,801	-	16,801
Profit before tax	**(17,589)**	**706,398**	**60,224**	**48,471**	**159,374**	**-**	**485,579**	**(178,849)**	**1,263,608**
Profit from discontinued operations, net of tax	-	-	-	-	-	-	-	-	-
Income tax expense	-	-	-	-	-	-	(280,068)		(280,068)
Profit for the year[3]	**(17,589)**	**706,398**	**60,224**	**48,471**	**159,374**	**-**	**205,511**	**(178,849)**	**983,540**
June 30, 2014									
Segment assets[3]	47,303,408	45,644,139	182,786	6,076,457	10,163,159	-	62,022,838	(1,952,800)	169,439,987
Associates and joint ventures	-	-	-	-	-	-	452,998	-	452,998
Total assets	**47,303,408**	**45,644,139**	**182,786**	**6,076,457**	**10,163,159**	**-**	**62,475,836**	**(1,952,800)**	**169,892,985**
Segment liabilities[3]	34,238,591	34,735,511	22,094,976	4,910,198	8,381,119	-	67,719,089	(2,186,499)	169,892,985
Total liabilities	**34,238,591**	**34,735,511**	**22,094,976**	**4,910,198**	**8,381,119**	**-**	**67,719,089**	**(2,186,499)**	**169,892,985**

(1) Other segment liabilities also include the equity.
(2) Consolidation adjustments include transactions with subsidiaries and investments consolidated and other consolidated adjustments in these financial statements.
(3) Segment asset and liabilities figures are prepared according to Management Information Systems (MIS) data.

June 30, 2013	Retail banking	Corporate banking Commercial banking	Private banking wealth management	Foreign operations	Domestic operations	Insurance	Treasury, asset liability man.& Other[1]	Consolidation adjustments[2]	Group
Segment revenue[3]	1,621,721	826,637	76,116	85,017	206,073	-	1,040,943	(23,322)	3,833,185
Segment expenses[3]	(1,278,972)	(242,412)	(35,183)	(43,363)	(87,408)	-	(468,646)	2,073	(2,153,911)
Segment result	342,749	584,225	40,933	41,654	118,665	-	572,297	(21,249)	1,679,274
Operating profit	**342,749**	**584,225**	**40,933**	**41,654**	**118,665**	**-**	**572,297**	**(21,249)**	**1,679,274**
Share of results of associates and joint ventures	-	-	-	-	-	-	113	-	113
Profit before tax	**342,749**	**584,225**	**40,933**	**41,654**	**118,665**	**-**	**572,410**	**(21,249)**	**1,679,387**
Profit from discontinued operations, net of tax	**-**	**-**	**-**	**-**	**-**	39,567	-	**-**	39,567
Income tax expense	-	-	-	-	-	-	(332,971)	-	(332,971)
Profit for the year[3]	**342,749**	**584,225**	**40,933**	**41,654**	**118,665**	**39,567**	**239,439**	**(21,249)**	**1,385,983**
December 31, 2013									
Segment assets[3]	46,847,599	41,597,715	177,420	6,136,749	10,011,482	-	57,139,823	(2,553,939)	159,356,849
Associates and joint ventures	-	-	-	-	-	-	457,337	-	457,337
Total assets	**46,847,599**	**41,597,715**	**177,420**	**6,136,749**	**10,011,482**	**-**	**57,597,160**	**(2,553,939)**	**159,814,186**
Segment liabilities[3]	34,135,357	35,600,735	18,846,849	4,986,213	8,207,762	-	60,829,222	(2,791,952)	159,814,186
Total liabilities	**34,135,357**	**35,600,735**	**18,846,849**	**4,986,213**	**8,207,762**	**-**	**60,829,222**	**(2,791,952)**	**159,814,186**

(1) Other segment liabilities also include the equity.
(2) Consolidation adjustments include transactions with subsidiaries and investments consolidated and other consolidated adjustments in these financial statements.
(3) Segment asset and liabilities figures are prepared according to Management Information Systems (MIS) data.

(Amounts expressed in thousands of TL unless otherwise indicated.)

23. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, The Group is controlled by Koç Group and UCG, owning 50% of the ordinary shares each of KFS.

A number of transactions were entered into with related parties in the normal course of business,

(i) Balances with related parties:

	June 30, 2014			
	Parent	**Other[1]**	**Key management**	**Total**
Loans and advances to customers, net	39,412	2,142,729	36	2,182,177
Trading and investment securities	-	413	-	413
Derivative financial instruments	4	7,370	-	7,374
Loans and advances to banks	17,504	48,179	-	65,683
Total assets	**56,920**	**2,198,691**	**36**	**2,255,647**
Customer deposits	7,301,268	3,528,061	2,234	10,831,563
Funds borrowed	7,962,422	2,069,914	-	10,032,336
Deposits from banks	530,117	40	-	530,157
Derivative financial instruments	1,556	30,450	-	32,006
Other liabilities	40	49	-	89
Total liabilities	**15,795,403**	**5,628,514**	**2,234**	**21,426,151**
Commitment under derivative instruments	508,019	1,011,465	-	1,519,484
Credit related commitments	525,988	2,380,160	-	2,906,148
Total commitments and contingent liabilities	**1,034,007**	**3,391,625**	**-**	**4,425,632**

	December 31, 2013			
	Parent	**Other[1]**	**Key management**	**Total**
Loans and advances to customers, net	94,642	1,675,212	74	1,769,928
Trading and investment securities	-	834	-	834
Derivative financial instruments	2,728	4,490	-	7,218
Loans and advances to banks	32,571	84,361	-	116,932
Total assets	**129,941**	**1,764,897**	**74**	**1,894,912**
Customer deposits	5,961,916	4,777,428	81,055	10,820,399
Funds borrowed	8,905,517	1,693,088	-	10,598,605
Deposits from banks	613,032	51	-	613,083
Derivative financial instruments	1,299	29,572	-	30,871
Other liabilities	265	43	-	308
Total liabilities	**15,482,029**	**6,500,182**	**81,055**	**22,063,266**
Commitment under derivative instruments	442,253	659,635	-	1,101,888
Credit related commitments	431,818	1,051,952	-	1,483,770
Total commitments and contingent liabilities	**874,071**	**1,711,587**	**-**	**2,585,658**

(1) Other consists of entities with joint control or significant influence over the entity, associates and joint ventures in which the entity is a venture and other related parties.

(Amounts expressed in thousands of TL unless otherwise indicated.)

23. Related party transactions (continued)

(ii) Transactions with related parties:

	June 30, 2014			
	Parent	**Other(1)**	**Key management**	**Total**
Interest income on loans and advances to customers	1,709	68,215	-	69,924
Fee and commission income	4,551	16,329	-	20,880
Interest income on financial leases	-	7,605	-	7,605
Interest income on loans and advances to banks	-	345	-	345
Other operating income	-	-	-	-
Total interest and fee income	**6,260**	**92,494**	**-**	**98,754**
Interest expense on deposits	(202,680)	(131,954)	(30)	(334,664)
Interest expense on funds borrowed	(36,094)	(68,038)	-	(104,132)
Other operating expense	(1,559)	(3,443)	-	(5,002)
Fee and commission expense	(4)	(32)	-	(36)
Total interest and fee expense	**(240,337)**	**(203,467)**	**(30)**	**(443,834)**

	June 30, 2013			
	Parent	**Other(1)**	**Key management**	**Total**
Interest income on loans and advances to customers	1,964	41,266	1	43,231
Fee and commission income	3,573	10,914	-	14,487
Interest income on financial leases	-	3,546	-	3,546
Interest income on loans and advances to banks	5	455	-	460
Other operating income	14,590	28,488	-	43,078
Total interest and fee income	**20,132**	**84,669**	**1**	**104,802**
Interest expense on deposits	(177,504)	(150,560)	(906)	(328,970)
Interest expense on funds borrowed	(24,229)	(80,477)	-	(104,706)
Other operating expense	(1,420)	(3,303)	-	(4,723)
Fee and commission expense	(2)	(2)	-	(4)
Total interest and fee expense	**(203,155)**	**(234,342)**	**(906)**	**(438,403)**

(1) Other consists of entities with joint control or significant influence over the entity, associates and joint ventures in which the entity is a venture and other related parties.

Salaries and other benefits paid to the Group's key management approximately amount to TL 29,524 as of June 30, 2014 (June 30, 2013 - TL 26,508).

Significant part of the related party balances and transactions are with related parties other than the parent or the associate or the joint venture; mainly comprising Koç Group and UCG entities.

(Amounts expressed in thousands of TL unless otherwise indicated.)

24. Discontinued operation

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- represents a separate line of business or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified a discontinued operation, the comparative statement of profit or loss is re-presented as if the operation had been discontinued from the start of the comparative period.

Yapı Kredi Sigorta A.Ş. ("YKS") and Yapı Kredi Emeklilik A.Ş. ("YKE") owned by YKS, which were in the consolidation scope of the Group as of December 31, 2012, are sold to Allianz SE on July 12, 2013; resulting in loss of control over these subsidiaries however, with reinvesting to YKE (the new name "Allianz") with 20% share, the Group gained a significant influence on YKE.

Until the date of the sale both YKS and YKE are consolidated and their operating results and the profit from the sale are presented under the discontinued operations in the accompanying consolidated financial statements.

The share in Allianz is accounted with its fair value at the date the control is lost.

YKL has bought 115,574,715 shares with a notional amount of full TL 11,557,471.5 representing 19.93% of shares of Allianz for full TL 188,107,812 on July 12, 2013.

The Group has sold its 9,581,514,570 shares with a notional amount of full TL 95,815,145.70 representing 93.94% of its shares in YKS for full TL 1,738,931,000 to Allianz.

Above mentioned subsidiaries' activities were classified as discontinued operations in the consolidated income statement in 2013 according to the IFRS 5. The related consolidated income statement for prior period is restated with a few classifications and the effect of these reclassifications is summarized in the table below.

June 30, 2013	**Published**	**Adjustment**	**Restated**
Interest income	4,937,965	-	4,937,965
Interest expense	(2,510,056)	(9,152)	(2,519,208)
Net interest income	**2,427,909**	**(9,152)**	**2,418,757**
Fee and commission income	1,164,884	54,828	1,219,712
Fee and commission expense	(207,932)	-	(207,932)
Net fee and commission income	**956,952**	**54,828**	**1,011,780**
Foreign exchange gains, net	59,502	-	59,502
Net trading, hedging and fair value income / (loss)	(15,993)	-	(15,993)
Gains from investment securities, net	318,302	-	318,302
Other operating income	38,117	2,720	40,837
Operating income	**3,784,789**	**48,396**	**3,833,185**
Impairment losses on loans, investment securities and credit related commitments, net	(501,936)	-	(501,936)
Provision for retirement benefit obligations, net	(46,459)	-	(46,459)
Other provisions	(100,838)	-	(100,838)
Other operating expenses	(1,469,578)	(35,100)	(1,504,678)
Operating profit	**1,665,978**	**13,296**	**1,679,274**
Share of profit/(loss) of associates and joint ventures accounted for using the equity method	113	-	113
Profit before income tax from continuing operations	**1,666,091**	**13,296**	**1,679,387**
Income tax expense	(332,971)	-	(332,971)
Profit for the period from continuing operations	**1,333,120**	**13,296**	**1,346,416**
Profit from discontinued operations, net of tax	52,863	(13,296)	39,567
Profit for the period	**1,385,983**	-	**1,385,983**

25. Subsequent events

On September 28, 2012, the Bank, signed a share purchase agreement to transfer their entire stake in Tasfiye Halinde Yapı Kredi B Tipi Yatırım Ortaklığı A.Ş. ("YKYO"). However, with the decision of YKYO's board of directors dated June 7, 2013, "Dissolution and Acquittal Protocol" and other relevant documents were signed for the termination of the share sales contract for YKYO between the buyer, together with the Bank. The board of directors of YKYO decided to liquidate YKYO and in this context, decided to make a share call. At the same time, the Bank also decided to purchase the remaining shares of YKYO. The Bank's total shareholding in YKYO increased to 95.36% after the purchase. On November 5, 2013, Capital Markets Board ("CMB") approved the liquidation process of YKYO and subsequently on February 17, 2014 the liquidation of the Company has been approved by the Court.

The extraordinary General Assembly of YKYO was held at July 8, 2014 related with the end of the liquidation period of YKYO. In the extraordinary General Assembly it was decided to finalize the liquidation process and to pay the remaining liquidation liabilities to the shareholders. It was decided to remove the official name, information and registry record of the YKYO from the trade registry records and other governmental agencies records.