Yapı ve Kredi Bankası A.Ş.

Consolidated financial statements at December 31, 2012 together with independent auditor's report

Ernst & Young

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Independent auditor's report

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

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

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

Ernst & Young

March 6, 2013
Istanbul, Turkey

Yapı ve Kredi Bankası A.Ş.

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Consolidated statement of financial position as at December 31, 2012

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

	Note	December 31, 2012	December 31, 2011	December 31, 2010
Assets				
Cash and balances with central banks	5	11,487,948	10,081,703	6,034,426
Loans and advances to banks	6	8,117,182	5,115,592	3,372,107
Financial assets held for trading				
- Trading securities	7	539,404	225,068	260,134
- Trading securities pledged as collateral	35	43,171	57,144	116,457
- Derivative financial instruments	7-8	416,145	268,159	693,524
Loans and advances to customers	9	82,776,658	73,907,771	57,804,154
Hedging derivatives	8	94,166	377,335	38,201
Investment securities				
- Available-for-sale	10	11,224,842	6,756,298	5,156,715
- Available-for-sale pledged as collateral	35	4,431,936	1,261,303	725,041
- Held-to-maturity	10	1,514,569	3,295,511	7,877,139
- Held-to-maturity pledged as collateral	35	4,313,125	9,415,111	5,097,805
Investment in associates and joint ventures accounted for using the equity method	11-12	212,393	203,590	94,171
Goodwill	13	1,023,528	1,023,528	1,023,528
Other intangible assets	14	382,040	304,763	263,667
Property and equipment	15	1,059,229	1,068,137	1,163,080
Deferred income tax assets	21	366,903	551,735	476,189
Other assets	16	2,860,601	2,143,970	1,613,895
Total assets		**130,863,840**	**116,056,718**	**91,810,233**
Liabilities				
Deposits from banks	17	6,242,560	7,457,384	4,935,470
Customer deposits	18	69,719,691	64,653,879	53,490,950
Funds borrowed	19	19,399,883	18,167,898	12,614,942
Debt securities in issue	20	5,691,409	3,248,717	1,394,904
Derivative financial instruments	8	384,481	540,339	359,168
Current income taxes payable		231,592	112,576	122,526
Deferred income tax liabilities	21	-	-	2,132
Hedging derivatives	8	904,687	502,841	453,663
Other provisions	22	682,019	465,837	457,185
Retirement benefit obligations	23	958,957	889,269	939,736
Insurance technical reserves	24	1,179,216	1,063,894	930,707
Other liabilities	25	8,926,301	6,021,041	5,165,086
Total liabilities		**114,320,796**	**103,123,675**	**80,866,469**
Equity				
Share capital and share premium	27	4,822,259	4,822,259	4,822,259
Other reserves	28	1,427,750	644	306,192
Retained earnings	28	10,232,299	8,047,016	5,756,268
Equity attributable to equity holders of the parent		**16,482,308**	**12,869,919**	**10,884,719**
Equity attributable to non-controlling interests		60,736	63,124	59,045
Total equity		**16,543,044**	**12,933,043**	**10,943,764**
Total liabilities and equity		**130,863,840**	**116,056,718**	**91,810,233**

The accompanying notes set out on pages 6 to 106 form an integral part of these consolidated financial statements.

Yapı ve Kredi Bankası A.Ş.

Consolidated statement of income
for the year ended December 31, 2012
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	December 31, 2012	December 31, 2011	December 31, 2010
Interest income	29	10,176,529	7,961,504	6,616,135
Interest expense	29	(5,774,880)	(4,733,795)	(3,333,697)
Net interest income		**4,401,649**	**3,227,709**	**3,282,438**
Fee and commission income	30	2,374,169	2,507,085	2,218,432
Fee and commission expense	30	(541,748)	(451,348)	(348,479)
Net fee and commission income		**1,832,421**	**2,055,737**	**1,869,953**
Foreign exchange gains, net		154,621	118,440	91,372
Net trading, hedging and fair value income / (loss)	31	35,108	38,942	(25,458)
Gains from investment securities, net	31	296,937	47,353	97,153
Insurance technical income, net	24	217,410	157,365	116,165
Other operating income		64,268	207,934	261,172
Operating income		**7,002,414**	**5,853,480**	**5,692,795**
Impairment losses on loans, investment securities and credit related commitments, net	33	(829,388)	(325,414)	(393,131)
Provision for retirement benefit obligations	23	(101,519)	25,933	6,318
Other provisions	22	(313,942)	(121,233)	(188,982)
Other operating expenses	32	(2,859,544)	(2,503,622)	(2,324,441)
Operating profit		**2,898,021**	**2,929,144**	**2,792,559**
Share of profit/(loss) of associates and joint ventures accounted for using the equity method	11-12	17,791	14,420	6,326
Profit before income tax		**2,915,812**	**2,943,564**	**2,798,885**
Income tax expense	21	(615,338)	(543,127)	(563,151)
Profit for the year		**2,300,474**	**2,400,437**	**2,235,734**
Attributable to:				
Equity holders of the parent		2,290,388	2,393,762	2,229,073
Non-controlling interest		10,086	6,675	6,661
		2,300,474	**2,400,437**	**2,235,734**
Basic and diluted earnings per share attributable to the equity holders of the parent (expressed in TL per thousand share)	34	5.27	5.51	5.13

The accompanying notes set out on pages 6 to 106 form an integral part of these consolidated financial statements.

Yapı ve Kredi Bankası A.Ş.

Consolidated statement of comprehensive income
for the year ended December 31, 2012
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	December 31, 2012	December 31, 2011	December 31, 2010
Profit for the year		**2,300,474**	**2,400,437**	**2,235,734**
Exchange differences on translation of foreign operations		(35,101)	141,035	(7,886)
Net gains / (losses) on available-for-sale financial assets				
- Unrealized net gains / (losses) arising during the year, before tax		2,021,133	(319,914)	121,518
- Net amount reclassified to the statement of income, before tax		(14,510)	(14)	(559)
Net investment hedges				
- Net gains (losses) arising on hedges recognized in other comprehensive income, before tax		20,055	(88,958)	19,484
- Net amount reclassified to the statement of income, before tax		-	-	-
Cash flow hedges				
- Net losses arising on hedges recognized in other comprehensive income, before tax		(525,318)	(444,372)	(192,346)
- Net amount reclassified to the statement of income, before tax	8	209,965	185,994	65,061
Income tax relating to components of other comprehensive income	21	**(341,397)**	**116,879**	**(2,952)**
Other comprehensive income for the year, net of tax		**1,334,827**	**(409,350)**	**2,320**
Total comprehensive income for the year		**3,635,301**	**1,991,087**	**2,238,054**
Total comprehensive income attributable to:				
Equity holders of the parent (total)		3,624,620	1,985,200	2,231,533
Non-controlling interest (total)		10,681	5,887	6,521

The accompanying notes set out on pages 6 to 106 form an integral part of these consolidated financial statements.

Yapı ve Kredi Bankası A.Ş.

Consolidated statement of changes in equity
for the year ended December 31, 2012

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

		Attributable to equity holders of the parent						
	Note	Share capital	Share premium	Other reserves (Note 28)	Retained earnings (Note 28)	Total	Non-controlling interest	Total equity
Balance at January 1, 2010		**4,286,580**	**535,679**	**235,993**	**3,594,934**	**8,653,186**	**53,217**	**8,706,403**
Total comprehensive income for the year		-	-	2,460	2,229,073	2,231,533	6,521	2,238,054
Dividends paid		-	-	-	-	-	(693)	(693)
Transfer to statutory reserves	28	-	-	67,739	(67,739)	-	-	-
Balance at December 31, 2010		**4,286,580**	**535,679**	**306,192**	**5,756,268**	**10,884,719**	**59,045**	**10,943,764**
Total comprehensive income for the year		-	-	(408,562)	2,393,762	1,985,200	5,887	1,991,087
Dividends paid		-	-	-	-	-	(1,808)	(1,808)
Transfer to statutory reserves	28	-	-	103,014	(103,014)	-	-	-
Balance at December 31, 2011		**4,286,580**	**535,679**	**644**	**8,047,016**	**12,869,919**	**63,124**	**12,933,043**
Total comprehensive income for the year		-	-	1,334,232	2,290,388	3,624,620	10,681	3,635,301
Dividends paid		-	-	-	-	-	(3,066)	(3,066)
Transfer to statutory reserves	28	-	-	92,874	(92,874)	-	-	-
Effect of change in non-controlling interest		-	-	-	(12,231)	(12,231)	(10,003)	(22,234)
Balance at December 31, 2012		**4,286,580**	**535,679**	**1,427,750**	**10,232,299**	**16,482,308**	**60,736**	**16,543,044**

The accompanying notes set out on pages 6 to 106 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows
for the year ended December 31, 2012

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

	Note	December 31, 2012	December 31, 2011	December 31, 2010
Cash flows from operating activities				
Net profit		2,300,474	2,400,437	2,235,734
Adjustments for:				
Unrealized (gain) / loss on financial assets held for trading, net		(12,912)	32,091	(7,263)
Allowances for losses on loans, investment securities and credit related commitments	33	829,388	325,414	393,131
Measurement of derivative financial instruments at fair value	8	381,171	316,580	201,313
Share of profit of associates and joint ventures	11-12	(17,791)	(14,420)	(6,326)
Amortization of other intangible assets	32	72,936	60,024	46,089
Depreciation of property and equipment	32	163,165	154,491	142,667
(Reversal of) impairment charge on property and equipment	32	(137)	(98,763)	(52,942)
(Reversal of) impairment charge on intangible assets	32	-	-	(2,770)
Provision for current and deferred income taxes	21	615,338	543,127	563,151
Other provisions	22	313,942	121,233	188,982
Provision / (reversal) for retirement benefit obligations	23	101,519	(25,933)	(6,318)
Other liabilities	25	(3,042)	10,696	(15,621)
Unearned commission income		134,626	41,253	10,317
Dividend income		(1,661)	(5,891)	(1,083)
Interest income, net	29	(4,401,649)	(3,227,709)	(3,282,438)
Interest paid		(5,610,967)	(4,519,465)	(3,285,930)
Interest received		8,322,475	7,720,985	6,364,978
Effect of exchange rates on financing activities		(1,026,154)	3,022,842	(288,203)
Others, net		752,972	(178,485)	192,451
Cash flows from operating profits before changes in operating assets and liabilities		**2,913,693**	**6,678,507**	**3,389,919**
Changes in operating assets and liabilities:				
Net decrease / (increase) in cash balances with central banks		(4,156,513)	(1,359,369)	(789,388)
Net decrease / (increase) in loans and advances to banks		(743,542)	750,344	(609,275)
Net decrease / (increase) in trading securities		(287,451)	62,288	(3,405)
Net decrease / (increase) in loans and advances to customers		(9,794,999)	(16,034,387)	(15,999,242)
Net (increase) / decrease in other assets		(515,219)	(2,002,648)	(502,181)
Net increase / (decrease) in deposits from banks		(1,188,631)	2,503,532	2,870,262
Net (decrease) / increase in customer deposits		5,047,157	11,026,605	11,301,385
Net increase / (decrease) in other liabilities and provisions		4,107,820	315,449	966,486
Income taxes paid		(652,887)	(513,876)	(503,047)
Net cash from / (used in) operating activities		**(5,270,572)**	**1,426,445**	**121,514**
Cash flows from investing activities				
(Purchase of) property and equipment	15	(159,435)	(143,277)	(144,172)
Net book value of property and equipment disposed	15	4,726	185,342	47,880
(Purchase of) intangible assets, net	14	(150,343)	(100,693)	(90,540)
(Purchase of) held-to-maturity securities	10	(50,325)	(563,716)	(3,020,222)
Redemption or sale of held-to-maturity securities	10	946,471	2,501,567	3,383,510
(Purchase of) available-for-sale securities	10	(3,768,824)	(4,462,379)	(9,624,918)
Sale or redemption of available-for-sale securities	10	3,609,598	2,119,598	5,900,619
Dividends received		1,661	5,891	1,083
Others, net		7,782	(12,728)	331
Net (used in) investing activities		**441,311**	**(470,395)**	**(3,546,429)**
Cash flows from financing activities				
(Repayments of) borrowed funds and debt securities		(7,518,216)	(7,264,301)	(7,893,237)
Proceeds from borrowed funds and debt securities		11,650,729	11,200,903	11,412,846
Dividend paid to minority		(3,066)	(1,808)	(693)
Net cash from / (used in) financing activities		**4,129,447**	**3,934,794**	**3,518,916**
Net increase / (decrease) in cash and cash equivalents		**(699,814)**	**4,890,844**	**94,001**
Effects of foreign exchange rate changes on cash and cash equivalents		(233,440)	653,549	(54,185)
Cash and cash equivalents at beginning of year	5	11,947,789	6,403,396	6,363,580
Cash and cash equivalents at end of year	5	**11,014,535**	**11,947,789**	**6,403,396**

The accompanying notes set out on pages 6 to 106 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, insurance, 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 December 31, 2012, 18.20% of the shares of the Bank are publicly traded (2011 - 18.20%; 2010 - 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 December 31, 2012, the Group has 17,459 employees (2011 - 17,306 employees; 2010 - 16,780 employees). The Bank has 927 branches operating in Turkey and 1 branch in a foreign country (2011 - 906 branches operating in Turkey, 1 branch in a foreign country; 2010 - 867 branches operating in Turkey, 1 branch in a foreign country and 1 representative office) and 14,733 employees (2011 - 14,859 employees; 2010 - 14,411 employees).

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

These consolidated financial statements for the year ended December 31, 2012 have been approved for issue by the Board of Directors on March 6, 2013.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A. Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis; except for available-for-sale investments, derivative financial instruments, other financial assets and liabilities held for trading and financial assets and liabilities designated at fair value through profit or loss, which have all been measured at fair value.

The carrying values of recognized assets and liabilities 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.

2. Summary of significant accounting policies (continued)

Statement of compliance

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

The Bank maintains its books of accounts and prepares its statutory financial statements in accordance with the Banking Law and the "Regulation on Accounting Applications for Banks and Safeguarding of Documents" published in the Official Gazette No. 26333 dated November 1, 2006, which refers to Turkish Accounting Standards and Turkish Financial Reporting Standards issued by the Turkish Accounting Standards Board and additional explanations and notes related to them and other decrees, notes and explanations related to accounting and financial reporting principles published by the Banking Regulation and Supervision Agency ("BRSA") and other relevant rules promulgated by the Turkish Commercial Code, Capital Markets Board and Tax Regulations. The subsidiaries maintain their books of accounts based on statutory rules and regulations applicable in their jurisdiction. Consolidated financial statements are derived from statutory financial statements with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

Presentation of financial statements

The Group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 4.

Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the consolidated financial statements as at December 31, 2012 are consistent with those followed in the preparation of the consolidated financial statements of the prior year, except for the adoption of new standards and IFRIC interpretations summarized below. The effects of these standards and interpretations on the Group's financial position and performance have been disclosed in the related paragraphs. These standards and interpretations did not have significant effect on the Group's financial position.

The new standards, amendments and interpretations which are effective as at January 1, 2012 are as follows:

- IAS 12 Income Taxes: Recovery of Underlying Assets (Amendment)
- IFRS 7 Financial Instruments: Disclosures - Transfers of Financial Assets (Amended)

Standards issued but not yet effective and not early adopted

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

The amendments are effective for annual periods beginning on or after July 1, 2012, but earlier application is permitted. The amendments to IAS 1 change only the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time would be presented separately from items which will never be reclassified. The amendments will be applied retrospectively. The amendment affects presentation only and will have no impact on the financial position or performance of the Group.

2. Summary of significant accounting policies (continued)

IAS 19 Employee Benefits (Amended)

Amended standard is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. With very few exceptions retrospective application is required. Numerous changes or clarifications are made under the amended standard. Among these numerous amendments, the most important changes are removing the corridor mechanism and making the distinction between short-term and other long-term employee benefits based on expected timing of settlement rather than employee entitlement. The amendment will have insignificant effect on the financial position of the Group.

IAS 27 Separate Financial Statements (Amended)

As a consequential amendment to IFRS 10 and IFRS 12, the IASB also amended IAS 27, which is now limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. Transitional requirement of this amendment is similar to IFRS 10. The amendment will have no impact on the financial position or performance of the Group.

IAS 28 Investments in Associates and Joint Ventures (Amended)

As a consequential amendment to IFRS 11 and IFRS 12, the IASB also amended IAS 28, which has been renamed IAS 28 Investments in Associates and Joint Ventures, to describe the application of the equity method to investments in joint ventures in addition to associates. Transitional requirement of this amendment is similar to IFRS 11. The Group does not expect that this amendment will have any impact on the financial position or performance of the Group.

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

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

IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities (Amended)

New disclosures would provide users of financial statements with information that is useful in (a) evaluating the effect or potential effect of netting arrangements on an entity's financial position and (b) analysing and comparing financial statements prepared in accordance with IFRSs and other generally accepted accounting standards. The amendments are to be retrospectively applied for annual periods beginning on or after January 1, 2013 and interim periods within those annual periods. The amendment affects disclosures only and will have no impact on the financial position or performance of the Group.

IFRS 9 Financial Instruments - Classification and Measurement

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

2. Summary of significant accounting policies (continued)

IFRS 10 Consolidated Financial Statements

The standard is effective for annual periods beginning on or after January 1, 2013 and is applied on a modified retrospective basis. This new Standard may be adopted early, but IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities should be also adopted early.

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. A new definition of control is introduced, which is used to determine which entities are consolidated. This is a principle based standard and require preparers of financial statements to exercise significant judgment. The Group does not expect that the new standard will have any impact on the financial position or performance of the Group.

IFRS 11 Joint Arrangements

The standard is effective for annual periods beginning on or after January 1, 2013 and is applied on a modified retrospective basis. This new Standard may be adopted early, but IFRS 10 Consolidated Financial Statements and IFRS 12 Disclosure of Interests in Other Entities should be also adopted early.

The standard describes the accounting for joint ventures and joint operations with joint control. Among other changes introduced, under the new standard, proportionate consolidation is not permitted for joint ventures. The Group does not expect that this standard will have a significant impact on the financial position or performance of the Group.

IFRS 12 Disclosure of Interests in Other Entities

The standard is effective for annual periods beginning on or after January 1, 2013 and is applied on a modified retrospective basis. This new Standard may be adopted early, but IFRS 10 Consolidated Financial Statements and IFRS 11 Joint Arrangements should be also adopted early.

IFRS 12 includes all of the disclosures that were previously in IAS 27 Consolidated and Separate Financial Statements related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 Interests in Joint Ventures and IAS 28 Investment in Associates. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. Under the new standard the Group will provide more comprehensive disclosures for interests in other entities.

IFRS 13 Fair Value Measurement

The new Standard provides guidance on how to measure fair value under IFRS but does not change when an entity is required to use fair value. It is a single source of guidance under IFRS for all fair value measurements. The new standard also brings new disclosure requirements for fair value measurements. IFRS 13 is effective for annual periods beginning on or after January 1, 2013 and will be adopted prospectively. Early application is permitted. The new disclosures are only required for periods beginning after IFRS 13 is adopted that is, comparative disclosures for prior periods are not required. The Group does not expect that the new standard will have any impact on the financial position or performance of the Group.

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

The interpretation is not applicable for the Group and will not have any impact on the financial position or performance of the Group.

2. Summary of significant accounting policies (continued)

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

The guidance is effective for annual periods beginning on or after January 1, 2013. The amendments change the transition guidance to provide further relief from full retrospective application. The date of initial application is defined as 'the beginning of the annual reporting period in which IFRS 10 is applied for the first time'. The assessment of whether control exists is made at 'the date of initial application' rather than at the beginning of the comparative period. If the control assessment is different between IFRS 10 and IAS 27/SIC-12, retrospective adjustments should be determined. However, if the control assessment is the same, no retrospective application is required. If more than one comparative period is presented, additional relief is given to require only one period to be restated. For the same reasons IASB has also amended IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities to provide transition relief. The Group is in the process of assessing the impact of the new amendment.

Improvements to IFRSs

The IASB has issued the Annual Improvements to IFRSs - 2009 - 2011 Cycle, which contains amendments to its standards. The annual improvements project provides a mechanism for making necessary, but non-urgent, amendments to IFRS. The effective date for the amendments is for annual periods beginning on or after January 1, 2013. Earlier application is permitted in all cases, provided that fact is disclosed. The Group does not expect that these amendments will have significant impact on the financial position or performance of the Group.

IAS 1 Financial Statement Presentation:
Clarifies the difference between voluntary additional comparative information and the minimum required comparative information.

IAS 16 Property, Plant and Equipment:
Clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

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

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

IFRS 10 Consolidated Financial Statements (Amendment)

IFRS 10 is amended to provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 Financial Instruments. The amendment applies for annual periods beginning on or after January 1, 2014 with earlier application permitted. The Group is in the process of assessing the impact of the new standard on the financial position or performance of the Group.

2. Summary of significant accounting policies (continued)

B. Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries for the year ended December 31, 2012. The financial statements of the Bank's subsidiaries (including special purpose company that the Bank consolidates) are prepared for the same reporting period as the Bank, using consistent accounting policies.

(a) Subsidiaries

Subsidiaries (including special purpose company), in which Group has power to control the financial and operating policies for the benefit of the Bank, either (a) through the power to exercise more than 50% of the voting rights relating to shares in the companies owned directly and indirectly by itself; or (b) although not having the power to exercise more than 50% of the voting rights, otherwise having the power to exercise control over the financial and operating policies, have been fully consolidated. The Group sponsors the formation of special purpose entities, which may or may not be directly owned, for the purpose of asset securitization transactions. Such entities are consolidated in the Group's consolidated financial statements when the substance of the relationship between the Group and the entity indicates that control is held by the Group. Subsidiaries and special purpose entities are consolidated from the date on which control is transferred to Group and are no longer consolidated from the date that control ceases.

The statements of financial position and income statements of the subsidiaries and special purpose entity are consolidated on a line-by-line basis and the carrying value of the investment held by YKB and its subsidiaries is eliminated against the related equity. Intercompany transactions and balances between the Group companies are eliminated on consolidation. Dividends arising from subsidiaries are eliminated from profit of the year.

In accordance with the amendments made to IAS 27, from January 1, 2010 onwards:

- A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction
- Losses are attributed to non-controlling interest even if that results in a deficit balance
- If the Group loses control over a subsidiary, it derecognizes the assets and liabilities and related equity components of the former subsidiary. Any gain or loss is recognized in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost.

Prior to January 1, 2010, in comparison to the above mentioned requirements which were applied on prospective basis, the following differences applied:

- The Group had chosen to account for acquisition and disposal of non-controlling interests as an equity transaction although not specifically required in IAS 27 prior to amendment

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost.

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

2. Summary of significant accounting policies (continued)

The list of principal subsidiaries at December 31, 2012, 2011 and 2010 is as follows:

Name of subsidiary	Country of incorporation	Nature of business
Yapı Kredi Finansal Kiralama A.O. [2]	Turkey	Leasing
Yapı Kredi Faktoring A.Ş.	Turkey	Factoring
Yapı Kredi Portföy Yönetimi A.Ş.	Turkey	Portfolio management
Yapı Kredi Yatırım Menkul Değerler A.Ş.	Turkey	Investment management
Yapı Kredi B Tipi Yatırım Ortaklığı A.Ş.	Turkey	Portfolio management
Yapı Kredi Sigorta A.Ş. [3]	Turkey	Insurance
Yapı Kredi Emeklilik A.Ş. [3]	Turkey	Insurance
Yapı Kredi Bank Nederland N.V.	Netherlands	Banking
Stiching Custody Services YKB	Netherlands	Custody services
Yapı Kredi Bank Moscow	Russia	Banking
Yapı Kredi Holding B.V.	Netherlands	Financial holding
Yapı Kredi Azerbaijan	Azerbaijan	Banking
Yapı Kredi Invest LLC	Azerbaijan	Investment management
Enternasyonel Turizm Yatırım A.Ş. ("Enternasyonel")	Turkey	Investment
Agro-san Kimya Sanayi ve Ticaret A.Ş. ("Agro-San")	Turkey	Agricultural chemicals
Yapı Kredi Kültür Sanat Yayıncılık Tic. ve San. A.Ş.	Turkey	Culture / art publications
Yapı Kredi Diversified Payment Rights Finance Co. [1]	Cayman Islands	Special Purpose Company ("SPC")

	2012		2011		2010	
Name of subsidiary	Control rates (%)	Effective rates (%)	Control rates (%)	Effective rates (%)	Control rates (%)	Effective rates (%)
Yapı Kredi Finansal Kiralama A.O.[2]	99.98	99.98	98.85	98.85	98.85	98.85
Yapı Kredi Faktoring A.Ş.	99.96	99.96	99.96	99.96	99.96	99.96
Yapı Kredi Portföy Yönetimi A.Ş.	99.97	99.95	99.97	99.95	99.97	99.95
Yapı Kredi Yatırım Menkul Değerler A.Ş.	99.98	99.98	99.98	99.98	99.98	99.98
Yapı Kredi B Tipi Yatırım Ortaklığı A.Ş.	56.07	56.06	56.07	56.06	56.07	56.06
Yapı Kredi Sigorta A.Ş.[3]	93.94	93.94	93.94	93.94	93.94	93.94
Yapı Kredi Emeklilik A.Ş.[3]	100.00	93.94	100.00	93.94	100.00	93.94
Yapı Kredi Bank Nederland N.V.	100.00	100.00	100.00	100.00	100.00	100.00
Stiching Custody Services YKB	100.00	100.00	100.00	100.00	100.00	100.00
Yapı Kredi Bank Moscow	100.00	100.00	100.00	100.00	100.00	100.00
Yapı Kredi Holding B.V.	100.00	100.00	100.00	100.00	100.00	100.00
Yapı Kredi Azerbaijan	100.00	100.00	100.00	100.00	100.00	100.00
Yapı Kredi Invest LLC	100.00	100.00	100.00	100.00	100.00	100.00
Enternasyonel	99.99	99.96	99.99	99.96	99.99	99.96
Agro-san	100.00	99.99	100.00	99.99	100.00	99.99
Yapı Kredi Kültür Sanat Yayıncılık Tic. ve San. A.Ş.	100.00	99.99	100.00	99.99	100.00	99.99
Yapı Kredi Diversified Payment Rights Finance Co. [1]	-	-	-	-	-	-

(1) Yapı Kredi Diversified Payment Rights Finance Company is a special purpose entity established for YKB's securitization transactions as explained in Note 20. It is included in the consolidation although YKB or any of its affiliates does not have any shareholding interest in this company.

(2) "Yapı Kredi Finansal Kiralama A.O. has voluntarily decided to delist its shares traded in capital markets upon the completion of the necessary legal procedures. As a result the Bank bought the shares of Yapı Kredi Finansal Kiralama A.O. with a nominal value of TL 4,429,167 for a share call price of full 5,02 per share in accordance with the ongoing delisting process and the Bank's equity stake in Yapı Kredi Finansal Kiralama A.O. increased to 99.98%. The difference of TL 12,231 between the considerations and the carrying values of the interests acquired has been recognized in retained earnings within equity."

(3) Within the framework of restructuring the insurance business of the Bank, the Board of Directors of the Bank decided on July 27, 2012 to jointly appoint Deutsche Bank AG, UniCredit Bank Austria AG and Yapı Kredi Yatırım Menkul Değerler A.Ş. as the financial advisors to the Bank.

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

2. Summary of significant accounting policies (continued)

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investment in associate is accounted for using the equity method of accounting and is initially recognized at cost. The Group's investment in associate includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in the Group's equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associate have been changed where necessary to ensure consistency with the policies adopted by the Group.

The details of the associate at December 31, 2012, 2011 and 2010 are as follows:

				2012		2011		2010	
Name of associate	Country of incorporation	Nature of business	Original currency	Control rate (%)	Effective rate (%)	Control rate (%)	Effective rate (%)	Control rate (%)	Effective rate (%)
Banque de Commerce et de Placements ("Banque de Commerce")	Switzerland	Banking	CHF	30.67	30.67	30.67	30.67	30.67	30.67

(c) Joint ventures

The joint venture is an entity in which the Group participates in its capital and has joint control. The joint venture is a real estate investment trust ("REIT") and operates according to special legislation with permission and license and is established in Turkey. The related joint venture is accounted for using the equity method.

The Group's share of its joint ventures' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in the Group's equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

Unrealized gains on transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in the joint venture. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint venture have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

2. Summary of significant accounting policies (continued)

The details of the joint venture at December 31, 2012, 2011 and 2010 are as follows:

				2012		2011		2010	
Name of joint venture	Country of incorporation	Nature of business	Original currency	Control rate (%)	Effective rate (%)	Control rate (%)	Effective rate (%)	Control rate (%)	Effective rate (%)
Yapı Kredi Koray Gayrimenkul Yatırım Ortaklığı A.Ş.	Turkey	REIT	TL	30.45	30.45	30.45	30.45	30.45	30.45

(d) Fund management

The Group manages and administers open-ended mutual funds and private pension funds. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity. Information about the Group's fund management is set out in Note 39.

C. Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

The consolidated financial statements are presented in TL, which is the Bank's functional and the Group's presentation currency, and all values are rounded to the nearest thousands, except when otherwise indicated.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow and net investment hedges.

Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(c) Group companies

The results and financial position of all the group entities that have a functional currency different from the presentation currency (none of which has the currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the exchange rate prevailing at the date of that statement of financial position,

2. Summary of significant accounting policies (continued)

(ii) income and expenses for each statement of income are translated at average exchange rates.

Exchange differences resulting from the different rates applied for the translation of the statement of financial position and the statement of income as well as differences arising from the translation of the portion of the net asset value in foreign entities pertaining to the Group are recognized as "currency translation differences / translation reserves" included in other reserves in equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings designated as hedges of such investments, are presented in equity.

When a foreign operation is sold, such exchange differences are recognized in the income statement as part of the gain or loss on the sale.

D. Related parties

For the purpose of these consolidated financial statements, shareholders, companies controlled by or affiliated with them and other companies within the Koç Group and the UniCredit Group as well as key management personnel are considered and referred to as related parties (Note 38).

E. Due from other banks

Amounts due from other banks are recorded when the Group advances money to counterparty banks with no intention of trading the resulting unquoted non-derivative receivable due on fixed or determinable dates. Amounts due from other banks are carried at amortized cost.

F. Financial assets and liabilities at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. Financial assets and financial liabilities are designated at fair value through profit or loss when doing so significantly reduces measurement inconsistencies that would arise if the related derivatives were treated as held for trading and the underlying financial instruments such as loans and advances to customers or banks and debt securities in issue were carried at amortized cost.

Gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with designated financial assets or financial liabilities are included in 'net trading, hedging and fair value income and loss.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated as hedging instruments.

Financial assets at fair value through profit or loss are initially recognized and subsequently re-measured at fair value. All related realized and unrealized fair value gains and losses are included in net trading income. Interest earned whilst holding financial assets at fair value through profit or loss is reported as interest income.

All purchases and sales of trading assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognized at the settlement date, which is the date that the asset is delivered to/by the Group. Any change in fair value of the trading assets to be received during the period between the trade date and the settlement date is recognized in profit or loss.

2. Summary of significant accounting policies (continued)

G. Investment securities

Investment securities are classified into the following two categories: held-to-maturity and available-for-sale assets. Investment securities with fixed maturity, where management has both the intent and the ability to hold to maturity are classified as held-to-maturity. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, or client's servicing activity are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase.

Investment securities are initially recognized at fair value which is the cash consideration including transaction costs. Available-for-sale financial assets are subsequently re-measured at fair value. Gains and losses arising from changes in the fair value of securities classified as available-for sale revaluation are recognized as other comprehensive income in the "available-for-sale revaluation reserve" included in other reserves, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity is transferred to the income statement.

Held-to-maturity investments are carried at amortized cost using the effective interest method, less any provision for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate.

There are no financial assets that were previously classified as held-to-maturity but cannot be subject to this classification for two years due to breach of classification principles. In accordance with IAS 39, the sales or reclassifications to available-for-sale portfolio of insignificant amount of financial assets, sale or reclassification to available for sale portfolio of financial assets which are close to maturity, or sale or reclassification to available for sale portfolio of assets as a result of significant increase in the risk weights of held to maturity investments used for regulatory risk-based capital purposes will not result in tainting.

Equity securities classified as available-for-sale are carried at fair values except unlisted equity securities, which are measured at cost after deduction for any impairment (Note 10).

Interest earned whilst holding investment securities is reported as interest income. Dividends earned whilst holding available-for-sale financial investments are recognized in the statement of income when the right of the payment has been established.

All purchases and sales of investment securities are recognized at the settlement date, which is the date the asset is delivered to/by the Group. Any change in fair value of the available-for-sale securities to be received during the period between the trade date and the settlement date is recognized in other comprehensive income.

Unsettled transactions are recorded as off statement of financial position commitments until the settlement date.

H. Repurchase and reverse repurchase agreements

Securities sold subject to linked repurchase agreements ("repos") are not derecognized from the statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognized in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within deposits from banks and customer deposits, reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase price is treated as interest expense and amortized over the life of repo agreements using the effective interest method.

2. Summary of significant accounting policies (continued)

On the other hand securities purchased under agreements to resell ("reverse repo") are not recognized in the statement of financial position. The amount paid, including accrued interest, is recorded as loans and advances to banks in the statement of financial position. The difference between the purchase and resale prices is recorded in "interest income" and is accrued over the life of the agreement using the effective interest method.

I. Loans and advances to customers

Loans and advances to customers are recorded when the Group advances money to purchase or originate an unquoted non-derivative receivable from a customer due on fixed or determinable dates and has no intention of trading the receivable. Loans and advances to customers are carried at amortized cost, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The losses arising from impairment are recognized in the income statement in "impairment losses on loans, investment securities and credit related commitments".

The Group holds appropriate collateral for each loan according to its specified risk and the relevant Banking Regulation and Supervision Agency ("BRSA") communiqués. The collateral strategy differentiates between collateral types on the basis of customers' ratings and loan terms. In general, the types of collaterals are cash collaterals, mortgages, guarantees, promissory notes, securities issued by the Turkish Treasury Undersecretariat and Central Bank and pledge on assets.

J. Impairment of financial assets

Financial assets carried at amortized cost

The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. Impairment losses are recognized in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. The primary factors that the Group considers whether a financial asset is impaired is its overdue status and realizability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any installment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the borrower experiences a significant financial difficulty as evidenced by borrower's financial information that the bank obtains;
- the borrower considers bankruptcy or a financial reorganization;
- there is adverse change in the payment status of the borrower as a result of changes in the national or local economic conditions that impact the borrower.

The Group uses a set of obligatory and judgement-based triggers that can lead to a classification as impaired. The final decision on impaired classification is always subject to expert judgement. Obligatory triggers include bankruptcy, financial restructuring and 90 days' past due. Judgement-based triggers include elements such as (but are not limited to) negative equity, regular payment problems, improper use of credit lines, legal action by other creditors. These triggers are complementary to the judgement of an expert.

2. Summary of significant accounting policies (continued)

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and the experience of management in respect of the extent to which amounts will become overdue as a result of past loss events and the success of recovery of overdue amounts. Past experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect past periods and to remove the effects of past conditions that do not exist currently.

The Group adopted Incurred But Not Reported ("IBNR") model for performing loans with intrinsic elements such as loss detection period ("LDP") and expert views. IBNR impairments on loans represent the provisions that are provided for the transactions where loss events have already occurred, but have not been reported. In such cases provision is created in such proportion to the exposure that reflects the amount of losses that have been incurred as a result of the past but not reported events.

Impairment losses are always recognized through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset. If the loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account through profit or loss.

Uncollectible assets are written-off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined.

Financial assets classified as available for sale

For available-for-sale financial investments, the Group assesses at each statement of financial position date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

2. Summary of significant accounting policies (continued)

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement - is removed from equity and recognized in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognized directly in equity.

K. Derivative financial instruments

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. The fair values of derivative financial instruments that are quoted in active markets are determined from quoted market prices in active markets including recent market transactions. The fair values of financial derivatives that are not quoted in active markets are determined by using valuation techniques, including discounted cash flow models. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed. Fair values of derivatives are carried as assets when positive and as liabilities when negative. The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received). Derivative financial instruments are classified as held for trading and hedging.

Certain derivative transactions, even though providing effective economic hedges under the Group risk management position, do not qualify for hedge accounting under the specific rules in IAS 39, and are therefore treated as derivatives held for trading with fair value gains and losses reported in income statement.

Certain derivatives embedded in other financial instruments, such as credit linked notes ("CLN"), constant maturity swaps ("CMS"), are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognized in the consolidated income statement unless the Group chooses to designate the hybrid contracts at fair value through profit or loss.

Embedded derivatives are separated from the host contract and accounted for as a derivative in accordance with IAS 39, if and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract

- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

- the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss (i.e. a derivative that is embedded in a financial asset or financial liability at fair value through profit or loss is not separated).

If an embedded derivative is separated, the host contract shall be accounted for under IAS 39 if it is a financial instrument and in accordance with other appropriate standards if it is not a financial instrument.

2. Summary of significant accounting policies (continued)

L. Hedge accounting

The Group makes use of derivative instruments to manage exposures to interest rate and foreign currency risks, including exposures arising from forecast transactions and firm commitments. In order to manage particular risks, the Group applies hedge accounting for transactions that meet the specified criteria. The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the instruments that are used in hedging transactions are highly effective in offsetting changes in values of hedged items.

Net investment hedge

The effective portion of the foreign exchange differences of borrowings that are designated and qualify as net investment hedges are recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Effective changes in fair value of interest rate swaps and related hedged items are reflected in "net trading, hedging and fair value income". Any ineffectiveness is also recorded in "net trading, hedging and fair value income".

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to profit or loss over the period to maturity.

Cash flow hedge

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognized directly in equity in the 'Cash flow hedge' reserve (hedging reserves are included in other reserves). The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in 'net trading income'.

When the hedged cash flow affects the income statement, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the income statement. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the hedged transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

2. Summary of significant accounting policies (continued)

M. Property and equipment

All property and equipment are carried at cost less accumulated depreciation and accumulated impairment if any. Depreciation is calculated using the straight-line method to write down the cost of such assets to their residual values over their estimated useful life as follows:

Buildings	50 years
Furniture and fixtures and motor vehicles	5 years
Office equipment	5 years
Leasehold improvements	5 years, or over the period of the lease term if less than 5 years

The residual values and useful lives of the assets are reviewed, and adjusted if appropriate, at each statement of financial position date.

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and value in use.

Gains and losses on disposal of property and equipment are determined by comparing net proceeds with the carrying amount and recognized in "other operating income/expense" in the income statement.

Expenses for the repair of property and equipment are charged against income. They are, however, capitalized if they result in an enlargement or substantial improvement of the respective assets.

Leasehold improvements comprise primarily the capitalized branch refurbishment costs.

N. Other intangible assets

(i) Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on the basis of the expected useful lives (not exceeding a period of five years).

(ii) Trademarks and customer relationships related intangibles

Intangible assets such as trademarks and customer relationships related intangibles acquired in a business combination are carried at fair value at the acquisition date. The fair value of an intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Group. In other words, the effect of probability is reflected in the fair value measurement of the intangible asset. The Group recognizes at the acquisition date separately from goodwill an intangible asset of the acquiree if the asset's fair value can be measured reliably, irrespective of whether the asset had been recognized by the acquiree before the business combination. Those intangible assets are amortized using the straight-line method over their useful lives, which have been assessed as 10 years.

(iii) Other intangible assets

Expenditures to acquire patents, rights and licenses are capitalized and amortized using the straight-line method over their useful lives of 5 years or licencing periods.

2. Summary of significant accounting policies (continued)

O. Accounting for leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases:

(i) Group company is the lessor

When assets are sold under a finance lease, the total amount of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income. Lease income is recognized over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

(ii) Group company is the lessee

Assets acquired under finance lease agreements are capitalized at the inception of the lease at the fair value of the leased asset, which is the amount of cash consideration given for the leased asset. Lease payments are treated as comprising capital and interest elements; the capital element is treated as reducing the capitalized obligation under the lease and the interest element is charged to income. Depreciation on the leased asset is also charged to income on a straight-line basis over the useful life of the asset.

Operating leases:

(i) Group company is the lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

ii) Group company is the lessee

Leases which do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments, including prepayments (net of any incentives received from the lessor), are recognized as an expense in the income statement on a straight line basis over the lease term. Contingent rentals payable are recognized as an expense in the period in which they are incurred.

P. Goodwill

The excess of the cost of an acquisition over the fair value of the Group's share of the identifiable assets, liabilities or contingent liabilities of the acquired subsidiary at the date of acquisition of the control is recorded as goodwill and represents a payment made by the acquirer in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognized. The acquirer also recognizes assets that are capable of being individually identified and separately recognized, intangible assets (e.g. credit card brand value, deposit base and customer portfolio) and contingent liabilities at fair value, irrespective of whether the asset had been recognized by the acquiree before the business combination; if can be distinguished from the goodwill and if the asset's fair value can be measured reliably.

2. Summary of significant accounting policies (continued)

In line with "International Financial Reporting Standard for Business Combinations" ("IFRS 3"), goodwill is not subject to depreciation but is tested annually or more frequently for impairment and carried at cost less accumulated impairment losses, if any, in line with "International Accounting Standard for Impairment on Assets" ("IAS 36").

Q. Business combinations

Business combinations accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognized goodwill.

A business combination involving entities under common control of KFS is a business combination in which all of the combining entities are ultimately controlled by KFS both before and after the business combination, and that control is not transitory. In that respect, the Group considers legal mergers arising between entities ultimately controlled by KFS as business combinations under common control. On the other hand, business combinations involving entities under common control is scoped out of IFRS 3 and there is no other guidance on how to account for such transactions in current IFRS literature.

As there is an absence of a standard or an interpretation that specifically applies to business combinations involving entities under common control, the Bank management, in accordance with IAS 8, used its judgment and developed and applied an accounting policy that the management believes resulted in information that is relevant to the economic decision-making needs of users and reflected the economic substance of transactions and not merely its legal form. In making its judgment in accordance with IAS 8, management considered US GAAP as a framework with a similar conceptual framework and applied pooling of interest method applicable under US GAAP in accounting for the business combinations involving entities under common control of KFS.

Since business combinations involving entities under common control of KFS result in a single combined entity, a single uniform set of accounting policies is adopted. Therefore, the combined entity recognizes the assets, liabilities and equity of the combining entities at their existing carrying amounts adjusted only as a result of conforming the combining entities' accounting policies and applying those policies to all periods presented. There is no recognition of any new goodwill or negative goodwill. Similarly, the effects of all transactions between the combining entities, whether occurring before or after the merger, are eliminated in preparing the financial statements of the combined entity.

Expenditures incurred in relation to legal mergers are recognized as expenses in the period in which they are incurred.

2. Summary of significant accounting policies (continued)

R. Impairment of non-financial assets

At each reporting date, the Group evaluates whether there is any impairment indication on the asset. When an indication of impairment exists, the Group estimates the recoverable values of such assets. Impairment exists if the carrying value of an asset or a cash generating unit is greater than its recoverable amount which is the higher of value in use or fair value less costs to sell. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. An impairment loss is recognized immediately in the consolidated income statement. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets or group of assets. An impairment loss recognized in prior periods for an asset (excluding goodwill) is reversed if the subsequent increase in the asset's recoverable amount is caused by a specific event since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized as income in the consolidated financial statements.

Impairment losses relating to goodwill cannot be reversed in future periods.

S. Financial liabilities

Financial liabilities including deposits from banks, customer deposits and other borrowed funds are recognized initially at cost. Subsequently, financial liabilities are stated at amortized cost, using the effective interest rate, except for financial liabilities designated at fair value. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

T. Income taxes

(i) Current income tax

Income tax payable (receivable) is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognized as an expense (income) for the period except to the extent that current tax related to items that are charged or credited in other comprehensive income or directly to equity. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

Taxes other than on income are recorded within operating expenses (Note 32).

(ii) Deferred income taxes

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

The principal temporary differences arise from measurement of financial assets and liabilities at fair value, provision for loan impairment, provision for employment termination benefits and unused investment allowances.

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

2. Summary of significant accounting policies (continued)

Deferred income tax liabilities and assets are recognized when it is probable that the future economic benefit resulting from the reversal of temporary differences will flow to or from the Group. Deferred income tax assets resulting from temporary differences ,carry forward of unused tax losses and unused tax credits are recognized to the extent that it is probable that future taxable profit will be available against which the deferred income tax asset can be utilized (Note 21).

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax related to fair value remeasurement of available-for-sale investments and cash flow hedges, which are recognized in other comprehensive income, is also recognized in the other comprehensive income and subsequently in the consolidated income statement together with the deferred gain or loss.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

U. Retirement benefit obligations

(i) Pension benefits transferable to Social Security Institution ("SSI")

Yapı ve Kredi Bankası Anonim Şirketi Mensupları Yardım ve Emekli Sandığı Vakfı ("the Fund") is a separate legal entity and a foundation recognized by an official decree, providing all qualified YKB employees with pension and post-retirement benefits. This scheme is funded through payments of both the employees and the employer as required by SSI Law Numbered 506 and are as follows:

	2012		2011		2010	
	Employer (%)	Employee (%)	Employer (%)	Employee (%)	Employer (%)	Employee (%)
Retirement benefit contributions	12	9	12	9	12	9
Medical benefit contributions	7.5	5	7.5	5	7.5	5

The New Law was published in the Official Gazette dated May 8, 2008, numbered 26870. With the new law, the banks' pension funds will be transferred to SSI within three years from the date of publication of the decree and this period can extended for a maximum two years with the decision of the Council of Ministers.

The Group's obligation in respect of the Fund has been determined as the value of the payment that would need to be made to Social Security Institution ("SSI") to settle the obligation at the statement of financial position date in accordance with the Temporary Article 20 of the "Law regarding the changes in Social Insurance and General Health Insurance Law and other related laws and regulations" ("New Law") (Note 23). The pension disclosures set out in Note 23 therefore reflect the actuarial parameters and results in accordance with the New Law provisions.

The pension benefits transferable to SSI are defined benefit plans and are calculated annually by an independent actuary who is registered with the Undersecretariat of Treasury.

2. Summary of significant accounting policies (continued)

(ii) Defined contribution plans

The Bank's subsidiaries in Turkey pay contributions to publicly administered Social Security Institution on a mandatory basis. Foreign subsidiaries contribute to the related government body for the pension scheme of its employees in the country they are domiciled. The Group has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

(iii) Reserve for employment termination benefits

Provision for employment termination benefits represents the present value of the estimated total provision of the future probable obligation of the Group arising from the retirement of the employees calculated in accordance with the Turkish Labour Law. In accordance with existing social legislation and Turkish Labour Law in Turkey, the Group is required to make lump-sum termination indemnities to each employee whose employment is terminated due to retirement or for reasons other than resignation or misconduct and who has completed at least one year of service. Provision is made for the present value of the defined benefit obligation calculated using the projected unit credit method. All actuarial gains and losses are recognized in the consolidated income statement.

V. Provisions, contingent assets and contingent liabilities

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Where the effect of the time value of money is material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

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

Uncertain tax positions

The Group's uncertain tax positions are reassessed by management at every statement of financial position date. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the statement of financial position date and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognized based on management's best estimate of the expenditure required to settle the obligations at the statement of financial position date.

2. Summary of significant accounting policies (continued)

W. Interest income and expense

Interest income and expense are recognized in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, incremental costs that are directly attributable to the instrument and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

X. Fee and commission income and expense

Fees and commissions are generally recognized in the income statement on an accrual basis over the life of the transaction to which they refer. Commission income and fees for certain banking services such as import and export-related services, clearing, brokerage and custody services are recorded as income at the time of effecting the transactions to which they relate.

Portfolio and other management, advisory and service fees are recognized based on the applicable service contracts.

Y. Share capital

(i) Share issue costs

Incremental costs directly attributable to the issue of new shares or to the acquisition of a business are shown in equity as a deduction, net of tax, from the proceeds.

(ii) Share premium

When shares are issued, the excess of contributions received over the nominal value of the shares issued is recorded as share premium in equity.

(iii) Dividends on ordinary shares

Dividends on ordinary shares are recognized in equity in the period in which they are approved by the Company's shareholders. Dividends for the year that are declared after the statement of financial position date are dealt with in the subsequent events note.

Z. Acceptances

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers, if the latter fails to meet their obligation. Acceptances are accounted for as off-statement of financial position transactions.

2. Summary of significant accounting policies (continued)

AA. Other credit related commitments

In the normal course of business, the Group enters into other credit related commitments including loan commitments, letters of credit and guarantees. These are reported as off-statement of financial position items at their notional amounts and are assessed using the same criteria as originated loans (Note 2.I). Specific provisions are therefore established when losses are considered probable and recorded as other provisions. The provision for credit related commitments also covers losses from the collective assessment where the commitments are grouped using the internal models developed by the Group stemming from the classification of credit related commitments into risk rating classes based on the observation of a series of parameters related to the borrower and/or to the utilization of the loan.

Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortization of fees recognized in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognized on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the consolidated income statement within "impairment losses on loans, investment securities and credit related commitments".

AB. Offsetting

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

AC. Cash and cash equivalents

The cash and cash equivalents comprise balances with original maturities less than 90 days including cash and balances with the central banks excluding reserve requirements and loans and advances to banks (Note 5).

2. Summary of significant accounting policies (continued)

AD. Insurance business

The insurance contracts are those contracts that transfer insurance risk. The insurance contracts protect the insured against the adverse economic consequences of loss event under the terms and conditions stipulated in the insurance policy.

The insurance contracts produced by the Group are mainly in fire, marine, accident, engineering and health in non-life branches and group and personal life, and personal accident agreements which are classified under the groups of risk and saving policies in life branches. The highest written premium of the Group is within the health branch.

Non-life insurance contracts

The insurance agreements written in health branch consist of guarantees for the claims regarding the insuree's identification, diagnosis, and treatment. Fire insurance policies cover mainly fire and theft guarantees for household and business premises, as well as additional guarantees such as indemnity, rent deficiency, glass, and loss of profit. Marine insurance (hull, motor or air transport vehicles) covers goods in transit. The Group also writes engineering policies with engineering, assembly, machinery breakdown, electronic equipment, loss of profit coverage, and policies in accident branch including comprehensive insurance for motor vehicles, traffic, third party liability, and breach of trust guarantees. Furthermore, there are agriculture insurance contracts produced by Tarım Sigortaları Havuz İşletmesi A.Ş. and compulsory earthquake insurance contracts produced by Doğal Afet Sigortaları Kurumu.

Life insurance contracts

a) Risk policies:

Annual life

Annual life insurance provides guarantee against the risks that the policyholder may encounter for a year. This insurance covers all risks that the policyholder can be exposed to by providing natural death coverage along with the additional coverage such as accidental death, disability, critical disease, accidental death in public transportation during the policy term. Annual life contracts do no provide surrender and policy loan rights, have not any paid up value, and can be issued for groups and individuals. The age limit is between 18 and 65, premium amount changes according to the risk assessment based on age, sex and health risk assessment.

Credit life

Credit life insurance, provides guarantee against the risks that the policyholder may encounter (death) throughout the period the credit is used. In the event of such a negative situation the credit debt is paid by the credit life insurance and therefore the debtor and the family of the credit holder are financially protected. Credit life insurance products are risk products that do not have any paid up value. The age limit is between 18 and 70 (the period and age cannot exceed 70), premium amount changes according to the risk assessment based on age, sex and health risk assessment. Insurance guarantees can be arranged as fixed or diminishing and premium payments are made at the beginning of the insurance.

2. Summary of significant accounting policies (continued)

b) Saving policies:

Saving life insurance

Saving life insurance products are investment policies of minimum 10 years. The savings at the end of a minimum period of 10 years are paid to the policyholder. These insurances cover death risks as well as additional risk such as disability, critical disease, accidental death, and accidental death in public transportation. Guaranteed amounts are determined as multiple amounts of the monthly insurance premium. The age limit is usually between 18 and 65, and the premium amounts changes according to the risk assessment based on age, sex and health risk assessment. If the return on saving policies exceeds the technical interest guaranteed, the policyholders benefit from the profit share. In accordance with the insurance regulation in force, the Group classifies and accounts for all saving policies as insurance contracts.

c) Annuity products:

The Group offers lifelong annuity products and annuity products with guaranteed periods for beneficiary clients willing to receive payments periodically instead of a bulk compensatory payment. The annual income calculation for lifelong products are made by considering the real age and for annuity products with guaranteed periods, the insurance period is taken into account during the calculation as there is no probability of life or death.

(i) Premium income

Premium income is recognized in the period over which insurance coverage is provided to the policyholder. Premiums received relating to future periods are deferred on a daily pro-rated basis and only recognized in the income statement when earned.

Reinsurance premiums are recognized on the same basis as the related premium income.

(ii) Claims

A provision is made for the estimated cost of claims notified but not settled and incurred but not reported claims ("IBNR") at the statement of financial position date, less amounts recoverable from reinsurers.

The provision for the cost of claims notified but not settled is based upon a best estimate of the cost of settling each outstanding claim, on a case by case basis, after taking into account all known facts, recent past experience and assumptions about the future development of the outstanding cases. In order to determine the amount of outstanding claim reserves for claim files pending outcome of litigation process, 5 years of past historical data in the same line of business is taken into consideration.

(iii) Unearned premium reserve ("UPR")

Unearned premiums are those portions of the premiums underwritten during the year that relate to the period of risk subsequent to the statement of financial position date for all policies other than life policies with more than one year of maturity. The unearned premium reserve set aside has been computed on a daily pro-rated basis except marine branch. For marine policies, UPR is calculated as 50% of the last three months' premiums.

2. Summary of significant accounting policies (continued)

(iv) Deferred acquisition costs ("DAC")

The direct commission expenses incurred in acquiring the unearned portion of premiums are recorded on gross and a policy by policy basis and are recognized in the income statement on the same basis.

The direct commission expenses incurred in acquiring pension contracts, which are treated as investment contracts, are deferred in the statement of financial position under other assets, to the extent that the Group's subsidiary has secured revenues under these contracts. Such deferred acquisition costs are amortized over 18 months and tested for recoverability at each statement of financial position date.

(v) Life mathematical reserves

The life mathematical reserves have been calculated on the life policies in force at year-end by using actuarial assumptions and formulas approved by the Prime Ministry Undersecretariat of Treasury ("Treasury").

(vi) Life profit share reserve

Life profit share is the portion of investment income allocated to life policy holders from income generated due to premiums of life policies with a savings clause. Such policies normally have at least 10 years of maturity and policy holders are entitled to receive a profit share after 3 years from the date of policy issuance. Profit share is calculated on an individual policy basis. Investment income presented within income from insurance operations represents income generated through utilization of funds associated with mathematical reserves in various investment tools whereas the provision for profit share represents the amount allocated to policy holders out of investment income after certain deductions.

(vii) Liability adequacy test

At each statement of financial position date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities. Any deficiency is immediately charged to profit or loss. The Group has no additional liability with respect to the life insurance portfolio of its subsidiary since in its revised tariffs the subsidiary changed the basis of its life profit share calculation to guarantee an annual return of the lower of the guaranteed rate or the annual inflation rate.

(viii) Liability to pension contract holders for loyalty reward

The Group's subsidiary also calculates a liability for its pension contracts, recorded under other liabilities, which represent the present value of the entrance fees received from pension contract holders, since the Group's subsidiary has an unconditional commitment to return such entrance fees, adjusted for inflation, back to the contract holders when they meet certain loyalty criteria, that is when they remain invested in the pension funds under the management of the subsidiary for 10 years. Loyalty criteria is "until retirement" instead of "10 years" for the contracts issued after August 9, 2008. The present value of such liability is calculated using the long term real interest rate of 4.66% and the persistency rate of pension contract holders.

2. Summary of significant accounting policies (continued)

AE. Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in head office. Income and expenses directly associated with each segment are included in determining business segment performance.

In accordance with IFRS 8, the Group has the following business segments: Retail banking, Corporate and commercial banking, Private banking and wealth management, foreign operations, domestic operations, insurance, treasury asset liability management and other.

AF. Earnings per share

Earnings per share disclosed in the consolidated income statement are determined by dividing net income by the weighted average number of shares outstanding during the year concerned in Note 34.

AG. Dividends on ordinary shares

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Bank's shareholders.

AH. Comparatives

Comparative figures are reclassified, where necessary, to conform to changes in presentation of the December 31, 2012 consolidated financial statements.

3. Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. These disclosures supplement the commentary significant accounting policies (Note 2) and financial risk management (Note 4).

Judgements apart from those involving estimations, that have the most significant effect on the amounts recognized in the consolidated financial statements include:

Held-to-maturity financial assets: Management applies judgement in assessing whether financial assets can be categorized as held-to-maturity, in particular its intention and ability to hold the assets to maturity. If the Group fails to keep these investments to maturity other than for certain specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortized cost. If the entire class of held-to-maturity investments is tainted, the carrying amount would increase by TL 364,748 (2011 - increase by TL 264,720 TL; 2010 - increase by TL 766,537), with a corresponding entry in the available-for-sale revaluation reserve in equity (Note 4.F).

3. Critical accounting estimates and judgements in applying accounting policies (continued)

Finance leases and derecognition of financial assets: Management applies judgement to determine if substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to counterparties, in particular which risks and rewards are the most significant and what constitutes substantially all risks and rewards.

Special purpose entities: Judgement is also required to determine whether the substance of the relationship between the Group and a special purpose entity indicates that the special purpose entity is controlled by the Group.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of available for-sale investments

The Group reviews its debt securities classified as available-for-sale investments at each statement of financial position date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances.

The Group also determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement the Group evaluates, among other factors, the volatility in share price and duration and extent to which the fair value of an investment is less than its cost. In addition, objective evidence of impairment may be deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational or financing cash flows. Had all the declines in fair value below cost been considered significant or prolonged, the Group would not suffer any additional loss, being the transfer of the total debit balance in the fair value reserve to profit or loss.

Impairment losses on loans and advances

The methodology and assumptions used for estimating both the amount and timing of future cash flows from a portfolio of loans are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the present value of estimated cash flows differ by +/-5% the provision would be estimated TL 96,186 (2011 - TL 81,343; 2010 - TL 85,398) higher or lower. The Group calculates collective (IBNR) provision with intrinsic elements such as loss confirmation periods, probability of default and loss given defaults along with expert views. Taking into consideration the historical loss experience, the Bank has reassessed the parameters for different segments. For the year ended 2012, as a result of such reassessment, TL 102 million is recorded as income. As a result of changes in the internal composition of the loan portfolio in the 2011, the Group revised the collective loan loss provisions by updating the related parameters used with calculation of such provision. For the year ended 2011, as a result of the revision, TL 106 million is recorded as income.

Fair value of derivatives

Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values.

Tax legislation

Turkish tax legislation is subject to varying interpretations as disclosed in Note 21.

3. Critical accounting estimates and judgements in applying accounting policies (continued)

Pension fund

The Group determines the present value of funded benefit obligations in accordance with New Law by using several critical actuarial assumptions, including the discount rate, mortality rate, and medical costs defined by the Law as disclosed in Note 23. This approach recognizes the obligations of the Group to make payments to SSI in respect of the benefits which will be transferred to SSI rather than an obligation to make benefit payments to individuals.

Deferred income tax asset recognition

Deferred income tax assets are recorded to the extent that realization of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on medium term business plan prepared by management and extrapolated results thereafter. The business plans are based on management expectations that are believed to be reasonable under the circumstances.

Goodwill

Recoverable amount of goodwill was estimated based on value in use calculation as disclosed in Note 13.

Insurance risks

Technical profit in the insurance business of the Group is estimated based on the loss ratio of the business.

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.

4. Financial risk management (continued)

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) definition of provisioning methodologies in line with BRSA and IFRS requirements.

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.

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

4. Financial risk management (continued)

Parent Bank rating system:

The strategy of the Bank is to develop rating/scoring models in house. For this aim, Credit Rating Model Development unit has been established and all models since 2009 have been developed internally.

30 different rating models (including sub-models) developed internally are in use for different clients.

For corporate & commercial clients, integrated with the underwriting process, the Bank's internal rating model calculates ratings and assigns a probability of default for each borrower, classifying them under a scale of 17 grades examining both quantitative (statement of financial position, income and cash flow analysis, collaterals' value) and qualitative information (management assessment, competitive position, sector performance and environmental factors). The outcomes of the grading system reflect the riskiness of each rated customer. Second generation of rating model for this segment was implemented in 2011.

The Bank's rating tool concentration by risk classes as of December 31, 2012, 2011 and 2010 is as follows:

		Concentration level (%)		
	Rating class (1)	2012	2011	2010
Above average	1-4	43.7	35.9	31.2
Average	5+ - 6	49.4	51.0	47.9
Below average	7+ - 9	6.9	13.1	20.9

(1) For corporate and commercial clients that are rated individually only

Scoring models are also used throughout the granting, limit management and monitoring/collection processes for consumer loans and credit cards segment. Scorecard system was internally developed and being validated and updated regularly. Scorecard uses information received from Credit Bureaue and quantitative information which already kept in Bank's database.

Third generation of application scorecard has also been developed to evaluate SME clients in 2011 with an increased performance compared to previous model.

The above-mentioned methodologies and processes dedicated to different market segments (usage of different credit evaluation tools per segments) gives YKB the ability to measure, manage and monitor credit risk in a more accurate way.

Taking into consideration of the scoring models, the Group classifies its credit portfolio into the following groups as at December 31, 2012, 2011 and 2010:

	December 31, 2012		December 31, 2011		December 31, 2010	
Group's rating	% of Loans and advances	Provision coverage %	% of Loans and advances	Provision coverage %	% of Loans and advances	Provision coverage %
1. Performing loans	93.44	0.85	94.80	1.02	93.31	1.20
2. Watch-listed	3.28	4.42	2.13	4.50	3.11	5.81
3. Legal follow-up	3.28	64.20	3.07	66.37	3.58	74.19
	100.00	3.05	100.00	3.10	100.00	3.96

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

4. Financial risk management (continued)

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;

	December 31, 2012					
	Past due up to 30 days	Past due between 30 - 60 days	Past due between 60 - 90 days	Total	December 31, 2011 Total	December 31, 2010 Total
Corporate	1,553,682	460,796	210,523	2,225,001	2,877,267	1,359,382
Consumer	841,445	287,817	88,771	1,218,033	221,478	886,457
Credit cards	576,284	206,292	71,128	853,704	784,486	849,072
Leasing	7,325	5,354	10,855	23,534	21,202	13,664
Factoring	460,907	68,260	18,500	547,667	-	-
	3,439,643	**1,028,51**	**399,777**	**4,867,939**	**3,904,433**	**3,108,575**

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.

Loans and advances rescheduled:

Restructuring activities include extended and/or rescheduled payment arrangements, approved external management plans, arrangement of terms of loan such as modification and deferral of payments, interest rate, foreign exchange ("FX") type, collateral structure, additional loan etc, there can also be alternatives of granting additional loan or sale of collaterals, sale of debts, and sale of company.

Restructuring may be applied for watch-listed loans (loans which are under close monitoring, classification as watch is not based on past due days) or loans in nonperforming loan accounts. If restructuring is applied for a watch-listed loan, that loan will be classified to performing loan accounts but its terms (FX rate, payment dates, interest rate etc) may be changed.

On the other hand, if restructuring is applied for loans in non-performing loan accounts that loan will continue to stay at least 6 more months in non-performing loan accounts and it may be transferred to specified "restructured loan accounts" when both of the following conditions are met: at least 15% collection of loan amount and at least staying 6 months in nonperforming loan accounts. If an additional loan was granted during restructuring, then at least 15% collection necessity becomes at least 20% of total (existing + additional loan). As of December 31, 2012, the total amount of restructured loans included in legal follow up during the year is TL 205,199 (2011 - TL 232,219; 2010 - TL 125,709)

Restructuring policies and practices are consistent with the requirements of the BRSA.

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

4. Financial risk management (continued)

Maximum exposure to credit risk

	December 31, 2012	December 31, 2011	December 31, 2010
Credit risk exposures relating to assets on-statement of financial position:			
Loans and advances to banks	8,117,182	5,115,592	3,372,107
Loans and advances to customers			
- Credit cards	14,468,597	10,366,740	8,492,296
- Consumer	15,565,003	13,641,075	9,781,173
- Corporate	48,032,378	45,335,595	35,733,400
- Leasing	3,078,497	2,780,375	1,978,899
- Factoring	1,632,183	1,783,986	1,818,386
Financial assets held for trading:			
- Securities	582,575	282,212	376,591
- Derivative financial instruments	416,145	268,159	693,524
Hedging derivatives	94,166	377,335	38,201
Investment securities			
- Available-for-sale	15,656,778	8,017,601	5,881,756
- Held-to-maturity	5,827,694	12,710,622	12,974,944
Other assets	2,609,156	1,983,340	1,475,245
Credit risk exposures relating to off-statement of financial position items:			
Credit related commitments	26,403,877	23,821,697	18,947,336
Other	2,240,524	2,550,812	745,217

The above table represents a worst case scenario of credit risk exposure in the absence of any collateral or credit enhancements.

The main types of collaterals obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities
- For commercial lending, mortgages over real estate properties, cash, guarantee letters, securities, pledges or guarantees
- For retail lending, mortgages over residential properties or pledges on vehicles

Management monitors the market value of collateral and will request additional collateral in accordance with the underlying agreement.

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

4. Financial risk management (continued)

Industry sectors

The Group uses Central Bank of Republic of Turkey (CBRT) definitions for the economic sectors in order to be able to make comparisons with the banking sector wide figures. These definitions are also in line with NACE (European Classification of Economic Activities) classifications which are used within the EU. Through the credit policy, the Board of Directors sets the sectoral limits on lending, and these limits can only be altered by a decision from the Board of Directors. The sector concentration is accordingly monitored and reported on a regular basis. Particular attention is given to some sectors which are considered as "low performers" in terms of high non-performing loan ("NPL") levels. Macroeconomic conditions, NPL levels, expectations about sectors and UCG group policies are taken into consideration in setting and altering the limits. Sectoral classification is defined in terms of the borrower's activity area, not based on collaterals.

	Financial institutions	Manufacturing	Real estate	Wholesale and retail trade	Public sector	Other industries	Individuals	Total
Loans and advances to banks	8,117,182	-	-	-	-	-	-	8,117,182
Loans and advances to customers	2,685,127	17,490,254	436,514	4,174,103	1,153,905	26,799,860	30,036,895	82,776,658
Trading securities - debt securities	53,504	-	-	-	493,994	299	-	547,797
Derivative financial instruments	280,904	105,045	-	-	-	23,233	6,963	416,145
Hedging derivatives	94,166	-	-	-	-	-	-	94,166
Investment securities - debt securities	1,849,060	2,793	-	855	19,548,622	58,185	-	21,459,515
Other assets	1,905,297	-	-	-	423	845,228	109,653	2,860,601
As of December 31, 2012	**14,985,240**	**17,598,092**	**436,514**	**4,174,958**	**21,196,944**	**27,726,805**	**30,153,511**	**116,272,064**
As of December 31, 2011	**9,777,408**	**17,382,489**	**418,447**	**3,338,923**	**20,790,304**	**26,947,671**	**24,144,269**	**102,799,511**
As of December 31, 2010	**6,549,136**	**13,471,833**	**353,052**	**2,626,267**	**20,408,343**	**20,908,941**	**18,408,776**	**82,726,348**
Letter of guarantees	1,902,631	7,063,651	482,917	1,362,275	-	9,808,469	9	20,619,952
Letter of credits	539,824	4,183,307	24,087	619,416	-	417,291	-	5,783,925
Acceptance credits	-	101,739	-	381	-	19,205	-	121,325
Other commitments and contingencies	-	1,594,522	12,749	230,932	-	280,996	-	2,119,199
As of December 31, 2012	**2,442,455**	**12,943,219**	**519,753**	**2,213,004**	**-**	**10,525,961**	**9**	**28,644,401**
As of December 31, 2011	**2,420,227**	**11,430,727**	**372,152**	**1,965,192**	**-**	**10,184,075**	**136**	**26,372,509**
As of December 31, 2010	**1,969,702**	**8,811,977**	**281,248**	**1,381,221**	**-**	**7,187,061**	**61,344**	**19,692,553**

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

4. Financial risk management (continued)

Geographical sectors

Geographical concentrations of total assets:

	Turkey	Italy	Other EU	Other	Total
Cash and balances with central banks	11,076,562	-	324,546	86,840	11,487,948
Loans and advances to banks	5,730,984	5,593	1,392,274	988,331	8,117,182
Financial assets held for trading					
-Trading securities	575,064	-	7,511	-	582,575
-Derivative financial instruments	122,341	-	264,621	29,183	416,145
Hedging derivatives	-	-	94,166	-	94,166
Loans and advances to customers, net					
- Credit cards	14,458,229	-	-	10,368	14,468,597
- Consumer	15,443,638	-	-	121,365	15,565,003
- Corporate	45,664,004	52,493	925,054	1,390,827	48,032,378
- Leasing	3,004,109	-	5,462	68,926	3,078,497
- Factoring	1,632,183	-	-	-	1,632,183
Investment securities					
- Available-for-sale	13,959,272	-	1,337,627	359,879	15,656,778
- Held-to-maturity	5,718,196	-	95,346	14,152	5,827,694
Investment in associates and joint ventures	56,892	-	-	155,501	212,393
Goodwill	1,023,528	-	-	-	1,023,528
Other intangible assets	374,613	-	-	7,427	382,040
Property and equipment	1,024,876	-	1,376	32,977	1,059,229
Deferred income tax assets	363,137	-	2,245	1,521	366,903
Other assets	2,809,683	8,716	10,617	31,585	2,860,601
As of December 31, 2012	**123,037,311**	**66,802**	**4,460,845**	**3,298,882**	**130,863,840**
As of December 31, 2011	**109,152,299**	**37,485**	**3,692,218**	**3,174,716**	**116,056,718**
As of December 31, 2010	**87,647,636**	**31,251**	**2,028,725**	**2,102,621**	**91,810,233**
Letter of guarantees	18,382,831	667,426	889,863	679,832	20,619,952
Letter of credits	3,692,868	9,226	532,560	1,549,271	5,783,925
Acceptance credits	121,323	-	-	2	121,325
Other commitments and contingencies	2,113,479	-	-	5,720	2,119,199
As of December 31, 2012	**24,310,501**	**676,652**	**1,422,423**	**2,234,825**	**28,644,401**
As of December 31, 2011	**23,685,605**	**381,831**	**1,157,308**	**1,147,765**	**26,372,509**
As of December 31, 2010	**17,338,659**	**454,020**	**850,977**	**1,048,897**	**19,692,553**

4. Financial risk management (continued)

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 8). 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.

The major measurement techniques used to measure and control market risk are outlined below.

(a) Value-at-risk

The Group applies a VaR methodology to its trading portfolios, to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The VaR limits are set by the Board of Directors and revised every year according to the budget and strategic plan of the Group. VaR limit compliance is monitored by Risk Management on a daily basis.

VaR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the "maximum" amount the Group might lose, but only to a certain level of confidence (99%). There is therefore a specified statistical probability (1%) that actual loss could be greater than the VaR estimate. The VaR model of the Group assumes a one-day "holding period" until positions can be closed. The Group's assessment of past movements is based on data for the past 500 days. The Group applies these historical changes in rates, prices, indices, etc. directly to its current positions - a method known as historical simulation. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/factors used in the VaR calculation (back testing). The use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

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

4. Financial risk management (continued)

As VaR constitutes an integral part of the Group's market-risk control regime, VaR limits are established by the Board of Directors annually for all trading portfolio operations. For investment positions, as for the held-to-maturity portfolio, risk appetite limits are applied (VaR/Nominal Positions). Actual exposure against limits, together with a consolidated group-wide VaR, is reviewed daily by Risk Management. Average daily VaR for the trading portfolio of the Group for the twelve months period is TL 1,632 in 2012.

The quality of the VaR model is continuously monitored by back-testing the VaR results for trading books. All back-testing exceptions are investigated, and results are reported to the monthly Executive Committee ("ExCo") meetings.

Group total VaR includes securities, fx position, loans, deposits, debt securities issued and derivatives which are sensitive to fluctuations in interest rates, FX, equity prices and commodity prices on bank's on and off balance sheet and the trading VaR takes into account the securities portfolio held for trading, fx position and derivatives performed for trading purposes.

(a) Group VaR by risk type	12 months to reporting date (2012)		
	Average	High	Low
Foreign exchange risk	523	1,230	157
Interest rate risk of securities	36,105	43,739	26,843
Equities risk	-	-	-
Total VaR (*)	**91,241**	**97,904**	**81,176**

	12 months to reporting date (2011)		
	Average	High	Low
Foreign exchange risk	477	945	31
Interest rate risk of securities	38,749	54,312	29,084
Equities risk	-	-	-
Total VaR (*)	**82,190**	**98,262**	**74,468**

	12 months to reporting date (2010)		
	Average	High	Low
Foreign exchange risk	634	1,123	408
Interest rate risk of securities	85,474	136,642	51,963
Equities risk	-	-	-
Total VaR (*)	**78,028**	**107,545**	**55,048**

(*) Total Group VaR also includes derivatives.

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

4. Financial risk management (continued)

(b) Trading portfolio VaR by risk type	12 months to reporting date (2012)		
	Average	High	Low
Foreign exchange risk	523	1,230	157
Interest rate risk of trading securities	1,109	1,869	487
Equities risk	-	-	-
Total VaR	**1,632**	**3,099**	**644**

	12 months to reporting date (2011)		
	Average	High	Low
Foreign exchange risk	477	945	31
Interest rate risk of trading securities	559	998	199
Equities risk	-	-	-
Total VaR	**1,036**	**1,943**	**230**

	12 months to reporting date (2010)		
	Average	High	Low
Foreign exchange risk	634	1,123	408
Interest rate risk of trading securities	635	1,545	222
Equities risk	-	-	-
Total VaR	**1,269**	**2,668**	**630**

(c) Non-trading portfolio VaR by risk type	12 months to reporting date (2012)		
	Average	High	Low
Foreign exchange risk	-	-	-
Interest rate risk of investment securities	34,996	42,717	25,310
Equities risk	-	-	-
Total VaR	**34,996**	**42,717**	**25,310**

	12 months to reporting date (2011)		
	Average	High	Low
Foreign exchange risk	-	-	-
Interest rate risk of investment securities	38,190	53,514	28,884
Equities risk	-	-	-
Total VaR	**38,190**	**53,514**	**28,884**

	12 months to reporting date (2010)		
	Average	High	Low
Foreign exchange risk	-	-	-
Interest rate risk of investment securities	76,759	105,365	54,206
Equities risk	-	-	-
Total VaR	**76,759**	**105,365**	**54,206**

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

4. Financial risk management (continued)

(b) Stress tests

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by Risk Management, also indicated in the market risk policy of the Group, include: FX and interest rate stress testing, where stress movements are applied to the FX position and to the banking book. The results of the stress tests are reviewed by ExCo.

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.

December 31, 2012

	Foreign currency					
	USD	EUR	Other	Total	TL	Total
Assets						
Cash and balances with central banks	6,247,407	2,137,276	1,482,453	9,867,136	1,620,812	11,487,948
Loans and advances to banks	1,374,878	1,388,018	591,718	3,354,614	4,762,568	8,117,182
Financial assets held for trading						
- Trading securities	113,425	5,031	-	118,456	464,119	582,575
- Derivative financial instruments	92,250	37,551	1,005	130,806	285,339	416,145
Loans and advances to customers [1]	18,284,586	10,523,252	1,041,763	29,849,601	52,927,057	82,776,658
Hedging derivatives	-	-	-	-	94,166	94,166
Investment securities						
- Available-for-sale	7,122,856	441,374	36,043	7,600,273	8,056,505	15,656,778
- Held-to-maturity	2,281,950	227,237	-	2,509,187	3,318,507	5,827,694
Investment in associates and joint ventures	-	-	193,934	193,934	18,459	212,393
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	7,427	7,427	374,613	382,040
Property and equipment	-	1,376	32,976	34,352	1,024,877	1,059,229
Deferred income tax assets	-	-	164	164	366,739	366,903
Other assets	796,256	253,899	159,521	1,209,676	1,650,925	2,860,601
Total assets	36,313,608	15,015,014	3,547,004	54,875,626	75,988,214	130,863,840
Liabilities						
Deposits from banks	3,191,749	766,981	92,004	4,050,734	2,191,826	6,242,560
Customer deposits	17,455,225	9,738,974	1,990,046	29,184,245	40,535,446	69,719,691
Funds borrowed	7,258,638	9,049,136	96,732	16,404,506	2,995,377	19,399,883
Debt securities in issue	3,480,239	791,762	-	4,272,001	1,419,408	5,691,409
Derivative financial instruments	86,457	9,844	1,203	97,504	286,977	384,481
Current income taxes payable	-	1,738	145	1,883	229,709	231,592
Deferred income tax liabilities	-	-	-	-	-	-
Hedging derivatives	391,198	101,488	-	492,686	412,001	904,687
Other provisions	443	128	90	661	681,358	682,019
Retirement benefit obligations	-	9,576	-	9,576	949,381	958,957
Insurance technical reserves	237,085	58,970	5	296,060	883,156	1,179,216
Other liabilities	706,236	1,070,586	48,485	1,825,307	7,100,994	8,926,301
Total liabilities	32,807,270	21,599,183	2,228,710	56,635,163	57,685,633	114,320,796
Net balance sheet position	3,506,338	(6,584,169)	1,318,294	(1,759,537)		
Off-balance sheet derivative instruments net notional position	(2,450,573)	6,793,461	(1,125,486)	3,217,402		
Net foreign currency position	1,055,765	209,292	192,808	1,457,865		

(1) Collective impairment allowance of TL 398,305 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, 2011

	Foreign currency					
	USD	EUR	Other	Total	TL	Total
Assets						
Cash and balances with central banks	874,752	3,900,059	654,606	5,429,417	4,652,286	10,081,703
Loans and advances to banks	1,669,438	977,669	63,336	2,710,443	2,405,149	5,115,592
Financial assets held for trading						
- Trading securities	27,964	2,141	-	30,105	252,107	282,212
- Derivative financial instruments	76,828	5,702	2,011	84,541	183,618	268,159
Loans and advances to customers (1)	19,888,359	11,039,498	973,530	31,901,387	42,006,384	73,907,771
Hedging derivatives	362	-	-	362	376,973	377,335
Investment securities						
- Available-for-sale	1,270,495	165,851	54,537	1,490,883	6,526,718	8,017,601
- Held-to-maturity	8,613,182	628,558	-	9,241,740	3,468,882	12,710,622
Investment in associates and joint ventures	-	-	183,940	183,940	19,650	203,590
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	2,932	2,932	301,831	304,763
Property and equipment	-	522	19,750	20,272	1,047,865	1,068,137
Deferred income tax assets	-	927	1,556	2,483	549,252	551,735
Other assets	574,666	208,167	617,968	1,400,801	743,169	2,143,970
Total assets	**32,996,046**	**16,929,094**	**2,574,166**	**52,499,306**	**63,557,412**	**116,056,718**
Liabilities						
Deposits from banks	5,060,404	1,039,163	60,008	6,159,575	1,297,809	7,457,384
Customer deposits	19,109,954	8,916,338	1,946,776	29,973,068	34,680,811	64,653,879
Funds borrowed	5,490,051	10,243,933	124,786	15,858,770	2,309,128	18,167,898
Debt securities in issue	1,165,796	987,567	-	2,153,363	1,095,354	3,248,717
Derivative financial instruments	105,429	22,820	2,174	130,423	409,916	540,339
Current income taxes payable	-	-	513	513	112,063	112,576
Deferred income tax liabilities	-	-	-	-	-	-
Hedging derivatives	374,413	65,776	-	440,189	62,652	502,841
Other provisions	-	277	355	632	465,205	465,837
Retirement benefit obligations	-	4,187	-	4,187	885,082	889,269
Insurance technical reserves	267,199	65,515	13	332,727	731,167	1,063,894
Other liabilities	520,326	647,430	19,791	1,187,547	4,833,494	6,021,041
Total liabilities	**32,093,572**	**21,993,006**	**2,154,416**	**56,240,994**	**46,882,681**	**103,123,675**
Net balance sheet position	**902,474**	**(5,063,912)**	**419,750**	**(3,741,688)**		
Off-balance sheet derivative instruments net notional position	(2,580,679)	6,151,489	(45,548)	3,525,262		
Net foreign currency position	**(1,678,205)**	**1,087,577**	**374,202**	**(216,426)**		

(1) Collective impairment allowance of TL 382,122 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, 2010

	Foreign currency					
	USD	EUR	Other	Total	TL	Total
Assets						
Cash and balances with central banks	580,667	2,799,528	95,920	3,476,115	2,558,311	6,034,426
Loans and advances to banks	1,218,798	397,656	73,069	1,689,523	1,682,584	3,372,107
Financial assets held for trading						
- Trading securities	10,229	50,969	-	61,198	315,393	376,591
- Derivative financial instruments	49,625	14,871	6,250	70,746	622,778	693,524
Loans and advances to customers (1)	15,060,611	8,443,658	682,800	24,187,069	33,617,085	57,804,154
Hedging derivatives	3,738	-	-	3,738	34,463	38,201
Investment securities						
- Available-for-sale	1,323,106	76,327	53,680	1,453,113	4,428,643	5,881,756
- Held-to-maturity	6,880,673	774,441	-	7,655,114	5,319,830	12,974,944
Investment in associates and joint ventures	-	-	71,906	71,906	22,265	94,171
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	1,214	1,214	262,453	263,667
Property and equipment	-	607	16,379	16,986	1,146,094	1,163,080
Deferred income tax assets	-	-	1,589	1,589	474,600	476,189
Other assets	348,546	333,668	255,369	937,583	676,312	1,613,895
Total assets	25,475,993	12,891,725	1,258,176	39,625,894	52,184,339	91,810,233
Liabilities						
Deposits from banks	2,736,367	1,409,572	251,314	4,397,253	538,217	4,935,470
Customer deposits	13,874,813	7,076,309	749,046	21,700,168	31,790,782	53,490,950
Funds borrowed	3,355,373	6,778,604	57,961	10,191,938	2,423,004	12,614,942
Debt securities in issue	844,040	550,864	-	1,394,904	-	1,394,904
Derivative financial instruments	50,258	8,482	6,206	64,946	294,222	359,168
Current income taxes payable	-	180	-	180	122,346	122,526
Deferred income tax liabilities	-	2,132	-	2,132	-	2,132
Hedging derivatives	101,638	-	-	101,638	352,025	453,663
Other provisions	-	412	-	412	456,773	457,185
Retirement benefit obligations	-	2,737	-	2,737	936,999	939,736
Insurance technical reserves	257,022	59,204	12	316,238	614,469	930,707
Other liabilities	486,280	457,858	12,904	957,042	4,208,044	5,165,086
Total liabilities	21,705,791	16,346,354	1,077,443	39,129,588	41,736,881	80,866,469
Net balance sheet position	3,770,202	(3,454,629)	180,733	496,306		
Off-balance sheet derivative instruments net notional position	(4,717,269)	4,389,539	(22,028)	(349,758)		
Net foreign currency position	(947,067)	934,910	158,705	146,548		

(1) Collective impairment allowance of TL 306,393 calculated on foreign currency denominated loans is presented as TL balance in the above currency position table.

At December 31, 2012, assets and liabilities denominated in foreign currency were translated into TL using a foreign exchange rate of TL 1.7380 = USD 1, and TL 2.2929 = EUR1 (2011 - TL 1.8417 = USD 1, and TL 2.3827 = EUR1; 2010 - TL 1.50730= USD1, and TL 1.99780 = 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.

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

4. Financial risk management (continued)

Currency risk sensitivity:

The table below represents the sensitivity of the Parent Bank to 15% change of currency exchange rates (USD and EUR). 15% change is the assumption of parity change that may be faced in a possible fluctuation used in the Parent Bank's stress test scenarios.

	December 31, 2012	December 31,2011	December 31, 2010
Change in currency exchange rate	Profit/loss effect (1)	Profit/loss effect (1)	Profit/loss effect (1)
(+) 15%	(27,818)	(39,850)	(15,330)
(-) 15%	27,818	39,850	15,330

(1) Excluding tax effect.

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 December 31, 2012, 2011 and 2010. Included in the table are the Group's assets and liabilities in carrying amounts classified in terms of periods remaining to contractual repricing dates.

December 31, 2012	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	-	-	-	-	11,487,948	11,487,948
Loans and advances to banks	5,584,599	554,909	234,203	1,452	1,742,019	8,117,182
Financial assets held for trading						
- Trading securities	42,202	94,146	79,851	291,517	74,859	582,575
- Derivative financial instruments	225,897	132,546	51,324	6,378	-	416,145
Loans and advances to customers	37,453,321	20,766,933	16,736,740	4,869,960	2,949,704	82,776,658
Hedging derivatives	47,045	47,121	-	-	-	94,166
Investment securities						
- Available-for-sale	3,295,788	2,450,574	3,206,361	6,679,098	24,957	15,656,778
- Held-to-maturity	1,631,912	1,462,174	326,880	2,406,728	-	5,827,694
Investment in associates and joint ventures	-	-	-	-	212,393	212,393
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	-	-	382,040	382,040
Property and equipment	-	-	-	-	1,059,229	1,059,229
Deferred income tax assets	-	-	-	-	366,903	366,903
Other assets	1,674	4,405	-	-	2,854,522	2,860,601
Total assets	**48,282,438**	**25,512,808**	**20,635,359**	**14,255,133**	**22,178,102**	**130,863,840**
Liabilities						
Deposits from banks	5,330,454	406,122	124,776	66,036	315,172	6,242,560
Customer deposits	54,897,281	2,692,833	669,909	9,385	11,450,283	69,719,691
Funds borrowed	9,111,865	7,638,153	2,032,146	617,719	-	19,399,883
Debt securities in issue	1,844,410	1,233,009	869,086	1,744,904	-	5,691,409
Derivative financial instruments	169,837	157,229	50,162	7,253	-	384,481
Current income taxes payable	-	-	-	-	231,592	231,592
Deferred income tax liabilities	-	-	-	-	-	-
Hedging derivatives	695,886	208,801	-	-	-	904,687
Other provisions	-	-	-	-	682,019	682,019
Retirement benefit obligations	-	-	-	-	958,957	958,957
Insurance technical reserves	43,426	110,484	298,505	125,217	601,584	1,179,216
Other liabilities	61,444	9,608	731	-	8,854,518	8,926,301
Total liabilities	**72,154,603**	**12,456,239**	**4,045,315**	**2,570,514**	**23,094,125**	**114,320,796**
Net interest repricing gap (on balance)	**(23,872,165)**	**13,056,569**	**16,590,044**	**11,684,619**	**(916,023)**	**16,543,044**
Off-balance sheet derivative instruments net notional position	18,394,823	(1,488,734)	(16,149,146)	(1,356,983)	-	(600,040)
Net interest repricing gap (net position)	**(5,477,342)**	**11,567,835**	**440,898**	**10,327,636**	**(916,023)**	**15,943,004**

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

4. Financial risk management (continued)

December 31, 2011	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	-	-	-	-	10,081,703	10,081,703
Loans and advances to banks	4,163,582	163,918	262,208	2,371	523,513	5,115,592
Financial assets held for trading						
- Trading securities	26,730	168,914	27,786	17,804	40,978	282,212
- Derivative financial instruments	109,589	90,745	67,825	-	-	268,159
Loans and advances to customers	17,877,276	16,674,480	22,638,328	14,198,943	2,518,744	73,907,771
Hedging derivatives	168,161	209,174	-	-	-	377,335
Investment securities						
- Available-for-sale	1,123,579	2,389,281	1,768,348	2,712,642	23,751	8,017,601
- Held-to-maturity	2,095,011	1,212,450	2,721,385	6,681,776	-	12,710,622
Investment in associates and joint ventures	-	-	-	-	203,590	203,590
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	-	-	304,763	304,763
Property and equipment	-	-	-	-	1,068,137	1,068,137
Deferred income tax assets	-	-	-	-	551,735	551,735
Other assets	28,833	-	-	-	2,115,137	2,143,970
Total assets	**25,592,761**	**20,908,962**	**27,485,880**	**23,613,536**	**18,455,579**	**116,056,718**
Liabilities						
Deposits from banks	5,777,713	1,362,367	43,102	95,463	178,739	7,457,384
Customer deposits	50,602,821	2,626,054	556,390	20,031	10,848,583	64,653,879
Funds borrowed	8,886,232	7,235,190	1,462,084	584,392	-	18,167,898
Debt securities in issue	2,291,895	956,822	-	-	-	3,248,717
Derivative financial instruments	381,219	77,373	74,086	7,661	-	540,339
Current income taxes payable	-	-	-	-	112,576	112,576
Deferred income tax liabilities	-	-	-	-	-	-
Hedging derivatives	409,394	93,447	-	-	-	502,841
Other provisions	-	-	-	-	465,837	465,837
Retirement benefit obligations	-	-	-	-	889,269	889,269
Insurance technical reserves	46,029	82,601	324,395	127,837	483,032	1,063,894
Other liabilities	10,549	16,695	1,350	-	5,992,447	6,021,041
Total liabilities	**68,405,852**	**12,450,549**	**2,461,407**	**835,384**	**18,970,483**	**103,123,675**
Net interest reprising gap (on balance)	**(42,813,091)**	**8,458,413**	**25,024,473**	**22,778,152**	**(514,904)**	**12,933,043**
Off-balance sheet derivative instruments net notional position	17,048,944	1,162,079	(17,481,361)	(658,792)	-	70,870
Net interest repricing gap (net position)	**(25,764,147)**	**9,620,492**	**7,543,112**	**22,119,360**	**(514,904)**	**13,003,913**

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

4. Financial risk management (continued)

December 31, 2010	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	-	-	-	-	6,034,426	6,034,426
Loans and advances to banks	2,282,807	385,433	402,066	2,710	299,091	3,372,107
Financial assets held for trading						
- Trading securities	68,801	55,803	62,147	125,441	64,399	376,591
- Derivative financial instruments	591,743	76,975	23,581	1,225	-	693,524
Loans and advances to customers	18,082,302	14,479,584	16,445,317	7,766,566	1,030,385	57,804,154
Hedging derivatives	9,298	28,903	-	-	-	38,201
Investment securities						
- Available-for-sale	837,277	793,347	2,234,835	1,989,900	26,397	5,881,756
- Held-to-maturity	4,194,347	822,733	2,169,162	5,788,702	-	12,974,944
Investment in associates and joint ventures	-	-	-	-	94,171	94,171
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	-	-	263,667	263,667
Property and equipment	-	-	-	-	1,163,080	1,163,080
Deferred income tax assets	-	-	-	-	476,189	476,189
Other assets	516,252	6,005	-	-	1,091,638	1,613,895
Total assets	**26,582,827**	**16,648,783**	**21,337,108**	**15,674,544**	**11,566,971**	**91,810,233**
Liabilities						
Deposits from banks	3,712,332	688,154	238,299	103,662	193,023	4,935,470
Customer deposits	42,833,680	933,971	366,958	30,530	9,325,811	53,490,950
Funds borrowed	7,741,590	4,028,093	312,164	533,095	-	12,614,942
Debt securities in issue	1,375,419	-	-	19,033	452	1,394,904
Derivative financial instruments	138,469	207,065	13,634	-	-	359,168
Current income taxes payable	-	-	-	-	122,526	122,526
Deferred income tax liabilities	-	-	-	-	2,132	2,132
Hedging derivatives	173,886	279,777	-	-	-	453,663
Other provisions	-	-	-	-	457,185	457,185
Retirement benefit obligations	-	-	-	-	939,736	939,736
Insurance technical reserves	30,695	76,694	297,790	123,616	401,912	930,707
Other liabilities	2,605,539	3,734	1,135	-	2,554,678	5,165,086
Total liabilities	**58,611,610**	**6,217,488**	**1,229,980**	**809,936**	**13,997,455**	**80,866,469**
Net interest repricing gap (on balance)	**(32,028,783)**	**10,431,295**	**20,107,128**	**14,864,608**	**(2,430,484)**	**10,943,764**
Off-balance sheet derivative instruments net notional position	7,624,835	423,157	(7,757,173)	(500,565)	-	(209,746)
Net interest repricing gap (net position)	**(24,403,948)**	**10,854,452**	**12,349,955**	**14,364,043**	**(2,430,484)**	**10,734,018**

Interest rate sensitivity analysis [1]:

The table below represents the effect of 1% parallel change in the yield curve on assets and liabilities sensitive to interest rate excluding the tax effects.

	December 31, 2012	December 31, 2011	December 31, 2010
Change in Interest rate	**Value effect**	**Value effect**	**Value effect**
(+) 1%	(497,344)	(569,485)	(751,170)
(-) 1%	585,093	685,592	842,281

(1) The interest rate sensitivity analysis disclosed above is that of the Parent Bank.

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

4. Financial risk management (continued)

The table below summarises weighted average interest rates for financial instruments by major currencies outstanding at December 31, 2012, 2011 and 2010 based on yearly contractual rates.

	December 31, 2012			December 31, 2011			December 31, 2010		
	USD (%)	EUR (%)	TL (%)	USD (%)	EUR (%)	TL (%)	USD (%)	EUR (%)	TL (%)
Assets									
Cash and balances with central banks	-	0.15	-	-	-	-	-	-	-
Loans and advances to banks	2.11	0.77	7.04	4.17	0.66	12.58	2.09	0.36	8.05
Financial assets held for trading	3.80	0.88	6.81	4.18	5.75	8.32	2.86	7.05	8.11
Investment securities									
- Available-for-sale	7.05	4.49	9.20	6.80	5.83	9.84	6.98	5.94	7.85
- Held-to-maturity	5.51	4.68	8.97	6.70	5.00	9.91	6.76	5.69	10.05
Loans and advances to customers	5.29	5.40	12.47	5.04	5.87	13.80	4.63	5.13	12.78
Liabilities									
Deposits from banks	1.50	2.68	6.10	1.98	3.11	8.57	1.36	1.14	7.29
Customer deposits	2.96	2.99	8.33	4.70	3.97	10.89	2.80	2.57	8.70
Debt securities in issue	4.88	2.81	10.40	1.66	2.66	10.40	1.33	1.77	-
Funds borrowed	3.80	2.39	8.29	2.44	3.09	11.45	2.50	2.48	9.15

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.

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

4. Financial risk management (continued)

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.

The following table presents the cash flows payable by the Group under non-derivative financial liabilities by remaining contractual maturities at the statement of financial position date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the inherent liquidity risk based on expected undiscounted cash inflows.

December 31, 2012[(1)]

	Demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Liabilities						
Deposits from banks	314,672	5,509,639	422,232	43,306	70,064	6,359,913
Customer deposits	11,450,283	54,520,831	2,881,169	950,322	13,837	69,816,442
Funds borrowed	-	3,399,421	8,749,158	6,885,659	2,597,080	21,631,318
Debt securities in issue	-	267,114	1,178,103	2,452,898	1,875,764	5,773,879
Total liabilities	**11,764,955**	**63,697,005**	**13,230,662**	**10,332,185**	**4,556,745**	**103,581,552**
Assets held for managing liquidity risk (contractual maturity dates)	**7,576,074**	**38,223,648**	**32,059,240**	**37,726,742**	**21,430,932**	**137,016,636**

(1) Maturities of non-cash loans are presented in Note 36.

December 31, 2011[(1)]

	Demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Liabilities						
Deposits from banks	208,078	5,559,094	1,304,681	683,769	111,015	7,866,637
Customer deposits	10,848,584	50,585,674	3,438,147	677,125	34,015	65,583,545
Funds borrowed	-	2,513,006	9,233,456	5,769,748	1,318,279	18,834,489
Debt securities in issue	-	116,912	1,457,768	1,692,192	133,264	3,400,136
Total liabilities	**11,056,662**	**58,774,686**	**15,434,052**	**8,822,834**	**1,596,573**	**95,684,807**
Assets held for managing liquidity risk (contractual maturity dates)	**8,309,822**	**28,085,554**	**31,293,352**	**38,177,884**	**25,190,749**	**131,057,361**

(1) Maturities of non-cash loans are presented in Note 36.

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

4. Financial risk management (continued)

December 31, 2010[1]

	Demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Liabilities						
Deposits from banks	194,441	3,694,913	608,791	474,358	119,850	5,092,353
Customer deposits	9,325,811	42,991,449	965,050	407,558	51,541	53,741,409
Funds borrowed	-	3,038,526	5,064,290	3,079,078	2,661,837	13,843,731
Debt securities in issue	-	92,176	290,088	1,076,346	29,829	1,488,439
Total liabilities	**9,520,252**	**49,817,064**	**6,928,219**	**5,037,340**	**2,863,057**	**74,165,932**
Assets held for managing liquidity risk (contractual maturity dates)	**4,737,231**	**25,231,991**	**21,274,279**	**29,213,815**	**20,480,550**	**100,937,866**

(1) Maturities of non-cash loans are presented in Note 36.

The following table represents the outstanding derivative cash flows of the Group on undiscounted contractual maturity basis:

Derivatives settled on a gross basis

December 31, 2012	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivatives held for trading:						
Foreign exchange derivatives:						
- Outflow	12,509,031	4,361,821	6,805,562	2,503,506	157,000	26,336,920
- Inflow	12,467,989	4,357,347	6,920,444	1,975,186	-	25,720,966
Interest rate derivatives:						
- Outflow	23,454	261,623	1,507,538	2,896,142	423,605	5,112,362
- Inflow	23,713	259,367	1,547,445	2,950,139	454,205	5,234,869
Derivatives held for hedging:						
Interest rate derivatives:						
- Outflow	63,016	164,229	4,309,002	16,657,189	1,344,393	22,537,829
- Inflow	21,711	173,776	4,095,250	15,193,430	1,186,341	20,670,508
Total cash outflow	**12,595,501**	**4,787,673**	**12,622,102**	**22,056,837**	**1,924,998**	**53,987,111**
Total cash inflow	**12,513,413**	**4,790,490**	**12,563,139**	**20,118,755**	**1,640,546**	**51,626,343**

December 31, 2011	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivatives held for trading:						
Foreign exchange derivatives:						
- Outflow	9,262,199	4,251,613	4,713,761	3,603,302	531,650	22,362,525
- Inflow	9,136,901	4,156,536	4,805,995	3,000,351	368,340	21,468,123
Interest rate derivatives:						
- Outflow	97,033	3,149	295,380	3,811,951	661,856	4,869,369
- Inflow	97,487	5,159	294,006	3,814,968	662,743	4,874,363
Derivatives held for hedging:						
Interest rate derivatives:						
- Outflow	51,407	270,322	1,652,793	18,800,665	464,666	21,239,853
- Inflow	17,528	263,013	1,481,977	18,229,258	495,315	20,487,091
Total cash outflow	**9,410,639**	**4,525,084**	**6,661,934**	**26,215,918**	**1,658,172**	**48,471,747**
Total cash inflow	**9,251,916**	**4,424,708**	**6,581,978**	**25,044,577**	**1,526,398**	**46,829,577**

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

4. Financial risk management (continued)

December 31, 2010	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Derivatives held for trading:						
Foreign exchange derivatives:						
- Outflow	7,128,131	8,190,025	4,775,010	3,292,216	598,845	23,984,227
- Inflow	7,327,810	8,587,374	4,731,083	2,758,746	376,825	23,781,838
Interest rate derivatives:						
- Outflow	64,912	88,440	732,505	3,515,151	396,531	4,797,539
- Inflow	65,372	8,536	613,117	3,246,597	353,200	4,286,822
Derivatives held for hedging:						
Interest rate derivatives:						
- Outflow	22,374	135,129	783,959	6,453,882	33,189	7,428,533
- Inflow	1,828	109,620	559,671	5,830,245	30,256	6,531,620
Total cash outflow	7,215,417	8,413,594	6,291,474	13,261,249	1,028,565	36,210,299
Total cash inflow	7,395,010	8,705,530	5,903,871	11,835,588	760,281	34,600,280

D. Operational risk

Operational risk is defined as the risk of losses due to errors, infringements, interruptions, damages caused by internal processes or personnel or systems or caused by external events. Legal and compliance risk is a sub-category of operational risk: it is the risk to earnings from violations or non compliance with laws, rules, regulations, agreements, prescribed practices or ethical standards. Operational Risk Management department ("ORM") monitors the Group's operational risk exposure in accordance to standards and policies, collects operational risk data in a web-based database, performs the risk indicators' identification, the scenario analysis assessment, Business Continuity Management and assures the quality of data gathered in accordance to Basel II standards, proposes insurance hedging on operational risks and prepares risk mitigation plans. ORM performs second level controls, manages and measures the Group's operational risks.

For regulatory purposes and consideration in statutory capital adequacy ratio, on a consolidated basis, the Group calculates the amount subject to operational risk with the basic indicator method in accordance with Section 3 of the " Regulation Regarding Measurement and Evaluation of Banks' Capital Adequacy Ratio" published in the Official Gazette No. 28337 dated June 28, 2012, namely "The Calculation of the Amount Subject to Operational Risk", based on the gross income of the Group for the years ended 2012, 2011 and 2010. As of December 31, 2012, the total amount subject to operational risk is calculated as TL 10,677,893 (2011 - TL 9,764,669; 2010 - TL 8,999,966) and the amount of the related capital requirement is TL 854,231 (2011 - TL 781,174; 2010 - TL 719,998).

E. 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 and market risk. In accordance with these guidelines, banks must maintain a total capital adequacy ratio of a minimum of 12%.

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

4. Financial risk management (continued)

The Group's regulatory capital adequacy position on a consolidated basis at December 31, 2012, 2011 and 2010 was as follows:

	December 31, 2012	December 31, 2011	December 31, 2010
Tier I capital	13,998,517	11,698,856	9,276,491
Tier II capital	6,013,921	4,027,644	3,037,830
Deductions	(412,372)	(333,464)	(86,551)
Total regulatory capital	19,600,066	15,393,036	12,227,770
Risk-weighted assets (including market and operational risk)	129,018,009	103,462,230	79,249,650
Capital adequacy ratio (%)	**15.19**	**14.88**	**15.43**

F. Fair value of financial instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by a quoted market price, if one exists. The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions) without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques.

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 Bank's financial instruments that are not carried at fair value in the financial statements.

	December 31, 2012		December 31, 2011		December 31, 2010	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
Financial assets:						
Loans and advances to banks	8,117,182	8,246,406	5,115,592	5,277,657	3,372,107	3,391,936
Investment securities (held-to-maturity)	5,827,694	6,192,442	12,710,622	12,975,342	12,974,944	13,741,481
Loans and advances to customers	82,776,658	84,380,809	73,907,771	75,921,569	57,804,154	59,254,992
Financial liabilities:						
Deposits from banks	6,242,560	6,251,349	7,457,384	7,460,069	4,935,470	4,714,321
Customer deposits	69,719,691	70,088,772	64,653,879	64,976,209	53,490,950	53,490,950
Funds borrowed	19,399,883	19,520,369	18,167,898	18,121,703	12,614,942	12,643,111
Debt securities in issue	5,691,409	5,757,506	3,248,717	3,248,717	1,394,904	1,394,904

4. Financial risk management (continued)

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.

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 credit risk, currency and remaining maturity to determine their fair value.

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 ISE.

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.

Derivative products valued using a valuation technique with significant non-market observable inputs are primarily long dated option contracts and certain credit default swaps. These derivatives are valued using models which calculate the present value such as credit models (e.g., default rate models or credit spread models) and the binomial model for options. The models incorporate various indirectly observable assumptions which include the credit spread of the reference asset for credit default swaps, and market rate volatilities.

4. Financial risk management (continued)

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.

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:

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

4. Financial risk management (continued)

Assets and liabilities measured at fair value

December 31, 2012	Level 1	Level 2	Level 3[(1)]	Total
Financial assets at fair value through profit and loss				
Financial assets held for trading				
- Debt securities	534,076	13,721	-	547,797
- Equity securities	34,778	-	-	34,778
- Derivatives	-	416,145	-	416,145
Financial assets designated at fair value through profit or loss	-	-	-	-
- Debt securities	-	-	-	-
- Equity securities	-	-	-	-
- Loans and advances to banks	-	-	-	-
- Loans and advances to customers	-	-	-	-
Hedging derivatives	-	94,166	-	94,166
Available-for-sale financial assets				
- Investments securities - debt	13,990,054	1,641,767	-	15,631,821
- Investments securities - equity	-	-	24,957	24,957
Total assets	**14,558,908**	**2,165,799**	**24,957**	**16,749,664**
Financial liabilities at fair value through profit or loss				
- Derivatives	-	384,481	-	384,481
Hedging derivatives	-	904,687	-	904,687
Total liabilities	**-**	**1,289,168**	**-**	**1,289,168**

(1) Non-listed share certificates disclosed in Level 3, are accounted in accordance with IAS 39, at acquisition costs.

December 31, 2011	Level 1	Level 2	Level 3[(1)]	Total
Financial assets at fair value through profit and loss				
Financial assets held for trading				
- Debt securities	268,127	14,085	-	282,212
- Equity securities	-	-	-	-
- Derivatives	-	268,159	-	268,159
Financial assets designated at fair value through profit or loss	-	-	-	-
- Debt securities	-	-	-	-
- Equity securities	-	-	-	-
- Loans and advances to banks	-	-	-	-
- Loans and advances to customers	-	-	-	-
Hedging derivatives	-	377,335	-	377,335
Available-for-sale financial assets				
- Investments securities - debt	6,352,710	1,641,140	-	7,993,850
- Investments securities - equity	-	-	23,751	23,751
Total assets	**6,620,837**	**2,300,719**	**23,751**	**8,945,307**
Financial liabilities at fair value through profit or loss				
- Derivatives	-	540,339	-	540,339
Hedging derivatives	-	502,841	-	502,841
Total liabilities	**-**	**1,043,180**	**-**	**1,043,180**

(1) Non-listed share certificates disclosed in Level 3, are accounted in accordance with IAS 39, at acquisition costs.

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

4. Financial risk management (continued)

December 31, 2010	Level 1	Level 2	Level 3[1]	Total
Financial assets at fair value through profit and loss				
Financial assets held for trading				
- Debt securities	370,143	-	-	370,143
- Equity securities	6,448	-	-	6,448
- Derivatives	-	693,524	-	693,524
Financial assets designated at fair value through profit or loss				
- Debt securities	-	-	-	-
- Equity securities	-	-	-	-
- Loans and advances to banks	-	-	-	-
- Loans and advances to customers	-	-	-	-
Hedging derivatives	-	38,201	-	38,201
Available-for-sale financial assets				
- Investments securities - debt	4,551,215	1,308,165	-	5,859,380
- Investments securities - equity	240	-	22,136	22,376
Total assets	**4,928,046**	**2,039,890**	**22,136**	**6,990,072**
Financial liabilities at fair value through profit or loss				
- Derivatives	-	359,168	-	359,168
Hedging derivatives	-	453,663	-	453,663
Total liabilities	-	**812,831**	-	**812,831**

(1) Non-listed share certificates disclosed in Level 3, are accounted in accordance with IAS 39, at acquisition costs.

Reconciliation of Level 3 Items

Available-for-sale financial assets			
Investment securities - equity	**December 31, 2012**	**December 31, 2011**	**December 31, 2010**
Balance at the beginning of the period	23,751	22,136	24,870
Total profit or losses	-	-	-
- Profit or loss	(5)	-	-
- Other comprehensive income	-	-	-
Purchases	1,221	1,587	-
Issues	-	-	-
Settlements	-	-	-
Transfers to loans and receivables	-	-	-
Transfers into or out of Level 3	(10)	28	(2,734)
Balance at the end of the period	**24,957**	**23,751**	**22,136**
Total profit or losses for the period included in profit or loss for assets/liabilities held at period end	-	-	-

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

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

4. Financial risk management (continued)

G. Custody activities

The Group provides custody services to third parties. Those assets that are held in a custody capacity are not included in these consolidated financial statements. Fiduciary capacity of the Group is as follows:

	December 31, 2012	December 31, 2011	December 31 2010
Investment securities held in custody	12,277,545	19,935,479	18,069,560
Cheques received for collection	9,467,529	8,761,515	6,677,547
Commercial notes received for collection	2,791,267	2,927,731	2,089,277
	24,536,341	**31,624,725**	**26,836,384**

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:

	December 31, 2012	December 31, 2011	December 31, 2010
Cash and cash equivalents	1,546,923	1,033,190	702,227
Balances with central banks (*)	9,941,025	9,048,513	5,332,199
Reserve deposits with central banks (-)	(7,861,401)	(3,704,887)	(2,348,573)
Loans and advances to banks (with original maturity less than 90 days) (+)	7,216,199	4,967,585	2,467,771
Other cash equivalents (+)	171,789	603,388	249,772
Total	**11,014,535**	**11,947,789**	**6,403,396**

(*) The balance of gold amounting to TL 1,398,753 is accounted for under Central Bank foreign currency accounts as of December 31, 2012 (2011 - TL 564,607; 2010 - None)

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

(2) 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 of De Nederlandsche Bank represent reserve deposits equivalent to 1% of the overnight deposits, deposits with agreed maturity or deposits redeemable at notice up to 2 years, debt securities issued with agreed maturity up to 2 years and money market paper.

Reserve requirements of Central Bank of the Russian Federation represent reserve deposits equivalent to 5.5% of the liabilities to non-resident legal entities in all currencies, 4.0% of the liabilities to natural persons in all currencies, 4.0% 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. Loans and advances to banks

	December 31, 2012			December 31, 2011			December 31, 2010		
	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total
TL:									
Nostro / demand deposits	71,941	5	71,946	71,189	99	71,288	55,720	880	56,600
Time deposits	2,028,621	-	2,028,621	150,804	46,332	197,136	626,335	25,576	651,911
Interbank money market and reverse repo	2,662,001	-	2,662,001	2,136,725	-	2,136,725	974,073	-	974,073
	4,762,563	**5**	**4,762,568**	**2,358,718**	**46,431**	**2,405,149**	**1,656,128**	**26,456**	**1,682,584**
Foreign currency:									
Nostro/ demand deposits	16,970	1,653,104	1,670,074	6,991	445,234	452,225	16,218	226,273	242,491
Time deposits	840,217	733,089	1,573,306	1,348,022	873,362	2,221,384	642,031	805,001	1,447,032
Interbank money market and reverse repo	111,234	-	111,234	36,834	-	36,834	-	-	-
	968,421	**2,386,193**	**3,354,614**	**1,391,847**	**1,318,596**	**2,710,443**	**658,249**	**1,031,274**	**1,689,523**
	5,730,984	**2,386,198**	**8,117,182**	**3,750,565**	**1,365,027**	**5,115,592**	**2,314,377**	**1,057,730**	**3,372,107**

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

7. Financial assets held for trading

	December 31, 2012	December 31, 2011	December 31, 2010
Government bonds and treasury bills	493,996	227,090	256,818
Government bonds and treasury bills sold under repurchase agreements	-	-	43,734
Other debt securities	53,801	55,122	69,591
Total debt securities	**547,797**	**282,212**	**370,143**
Equity securities - listed	34,778	-	6,448
Total equity securities	**34,778**	**-**	**6,448**
Total securities	**582,575**	**282,212**	**376,591**
Derivative financial instruments	416,145	268,159	693,524
Total financial assets held for trading	**998,720**	**550,371**	**1,070,115**

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.

8. 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.

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

8. Derivative financial instruments and hedging activities (continued)

As of December 31, 2012, 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.

December 31, 2012

	Contract/ notional amount (aggregate of buy and sell)	Assets	Fair values Liabilities
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	8,262,586	66,513	94,477
Currency swaps	26,655,008	194,051	130,201
Over the counter ("OTC") currency options	9,756,039	31,322	33,512
Total OTC foreign exchange derivatives	**44,673,633**	**291,886**	**258,190**
Interest rate derivatives:			
Interest rate swaps	3,695,772	65,107	58,660
Cross-currency interest rate swaps	1,874,294	38,677	47,589
OTC interest rate options	4,382,223	-	10,138
Total OTC interest rate derivatives	**9,952,289**	**103,784**	**116,387**
Other derivatives[1]	**1,688,150**	**20,475**	**9,904**
Total derivative assets/ (liabilities) held for trading	**56,314,072**	**416,145**	**384,481**
Derivatives used for hedging			
Derivatives designated as fair value hedges:			
Cross-currency interest rate swaps	3,821,809	93,996	90,233
Derivatives designated as cash flow hedges:			
Interest rate swaps	36,959,906	170	814,454
Total derivative assets/ (liabilities) used for hedging	**40,781,715**	**94,166**	**904,687**
Total recognized derivative assets/ (liabilities)	**97,095,787**	**510,311**	**1,289,168**
Current		391,020	350,494
Non-current		119,291	938,674
Total recognized derivative assets/ (liabilities)	**97,095,787**	**510,311**	**1,289,168**

(1) Other derivatives include credit default swaps and security options. As at December 31, 2012 credit default swaps include insignificant amount of potential exposure to Eurozone sovereign countries.

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

8. Derivative financial instruments and hedging activities (continued)

December 31, 2011

	Contract/ notional amount (aggregate of buy and sell)	Assets	Fair values Liabilities
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	10,638,749	110,684	103,329
Currency swaps	19,181,819	21,056	287,378
Over the counter ("OTC") currency options	6,286,125	54,521	40,285
Total OTC foreign exchange derivatives	**36,106,693**	**186,261**	**430,992**
Interest rate derivatives:			
Interest rate swaps	4,579,348	67,526	79,588
Cross-currency interest rate swaps	45,607	1,845	1,934
OTC interest rate options	4,459,122	5,028	19,573
Total OTC interest rate derivatives	**9,084,077**	**74,399**	**101,095**
Other derivatives(1)	**1,646,449**	**7,499**	**8,252**
Total derivative assets/ (liabilities) held for trading	**46,837,219**	**268,159**	**540,339**
Derivatives used for hedging			
Derivatives designated as fair value hedges:			
Cross-currency interest rate swaps	6,206,854	369,747	18,959
Derivatives designated as cash flow hedges:			
Interest rate swaps	32,437,197	7,588	483,882
Total derivative assets/ (liabilities) used for hedging	**38,644,051**	**377,335**	**502,841**
Total recognized derivative assets/ (liabilities)	**85,481,270**	**645,494**	**1,043,180**
Current		330,308	430,968
Non-current		315,186	612,212
Total recognized derivative assets/ (liabilities)	**85,481,270**	**645,494**	**1,043,180**

(1) Other derivatives include credit default swaps and security options. As at December 31, 2011 credit default swaps include insignificant amount of potential exposure to Eurozone sovereign countries.

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

8. Derivative financial instruments and hedging activities (continued)

December 31, 2010

	Contract/ notional amount (aggregate of buy and sell)	Assets	Fair values Liabilities
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	5,287,933	24,255	33,661
Currency swaps	24,093,958	314,657	195,156
Over the counter ("OTC") currency options	10,928,414	77,679	75,371
Total OTC foreign exchange derivatives	**40,310,305**	**416,591**	**304,188**
Interest rate derivatives:			
Interest rate swaps	3,541,598	29,705	36,885
Cross-currency interest rate swaps	3,274,251	240,306	8,640
Total OTC interest rate derivatives	**6,815,849**	**270,011**	**45,525**
Other derivatives(1)	**918,313**	**6,922**	**9,455**
Total derivative assets/ (liabilities) held for trading	**48,044,467**	**693,524**	**359,168**
Derivatives used for hedging			
Derivatives designated as fair value hedges:			
Cross-currency interest rate swaps	4,317,238	34,462	313,917
Derivatives designated as cash flow hedges:			
Interest rate swaps	8,527,020	3,739	139,746
Total derivative assets/ (liabilities) used for hedging	**12,844,258**	**38,201**	**453,663**
Total recognized derivative assets/ (liabilities)	**60,888,725**	**731,725**	**812,831**
Current		664,284	188,316
Non-current		67,441	624,515
Total recognized derivative assets/ (liabilities)	**60,888,725**	**731,725**	**812,831**

(1) Other derivatives include credit default swaps and security options. As at December 31, 2010 credit default swaps include insignificant amount of potential exposure to Eurozone sovereign countries.

Fair value hedges

Starting from March 1, 2010, 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 December 31, 2012 is an asset amounting to TL 3,763 (2011 - asset TL 350,788; 2010 - liability TL 279,454). At December 31, 2012, the marked to market difference of the hedging derivatives since the inception date of the hedge relationship is TL 158,581 (2011 - TL 111,818; 2010 - TL 240,233), the fair value difference of the hedged items is TL 148,635 (2011 - TL 107,204; 2010 - TL 224,429) and their changes in the fair value for the year amounts to TL 41,431 (2011 - TL 117,225; 2010 - TL 84,292).

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

8. 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 twelve month period ended December 31, 2012 was as follows:

	December 31, 2012	December 31, 2011	December 31, 2010
Net interest income / (expense)	(209,965)	(185,994)	(65,061)
Taxation	41,993	37,199	13,012

During 2012, a loss of TL 2,304 (2011 - TL 1,076; 2010 - TL 4,208) was recognized in the statement of income due to hedge ineffectiveness from cash flow hedges.

As of December 31, 2012 net accumulated losses arising from cash flow hedges recognized under equity, net of reclassification to statement of income and net of tax, is TL 560,813 (2011 - 308,530; 2010 - 101,828).

There were no transactions for which cash flow hedge accounting had to be ceased in 2012 or 2011 or 2010 as a result of the highly probable cash flows no longer being expected to occur.

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 December 31, 2012 is EUR 264 million (2011 - EUR 238 million; 2010 - EUR 203 million). The accumulated foreign exchange loss of TL 107,273 (2011 - TL 123,317 loss; 2010 - TL 52,151 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 (2011 - None; 2010 - None).

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

9. Loans and advances to customers

December 31, 2012

	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Performing loans	46,881,180	14,352,409	14,143,220	2,853,576	1,542,319	79,772,704
Watch listed loans	1,195,319	1,100,817	287,207	131,268	86,760	2,801,371
Loans under legal follow - up	1,496,449	565,084	428,546	251,433	62,048	2,803,560
Gross	**49,572,948**	**16,018,310**	**14,858,973**	**3,236,277**	**1,691,127**	**85,377,635**
Specific allowance for impairment	(1,144,755)	(330,706)	(253,607)	(143,591)	(51,061)	(1,923,720)
Collective allowance for impairment	(395,815)	(122,601)	(136,769)	(14,189)	(7,883)	(677,257)
Total allowance for impairment	**(1,540,570)**	**(453,307)**	**(390,376)**	**(157,780)**	**(58,944)**	**(2,600,977)**
Net	**48,032,378**	**15,565,003**	**14,468,597**	**3,078,497**	**1,632,183**	**82,776,658**
Current						44,145,134
Non-current						38,631,524

December 31, 2011

	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Performing loans	44,747,256	13,079,163	10,147,831	2,549,066	1,787,155	72,310,471
Watch listed loans	720,622	525,182	246,351	131,498	-	1,623,653
Loans under legal follow - up	1,368,701	317,376	368,018	264,121	22,836	2,341,052
Gross	**46,836,579**	**13,921,721**	**10,762,200**	**2,944,685**	**1,809,991**	**76,275,176**
Specific allowance for impairment	(1,023,720)	(174,985)	(257,410)	(151,518)	(19,235)	(1,626,868)
Collective allowance for impairment	(477,264)	(105,661)	(138,050)	(12,792)	(6,770)	(740,537)
Total allowance for impairment	**(1,500,984)**	**(280,646)**	**(395,460)**	**(164,310)**	**(26,005)**	**(2,367,405)**
Net	**45,335,595**	**13,641,075**	**10,366,740**	**2,780,375**	**1,783,986**	**73,907,771**
Current						35,234,408
Non-current						38,673,363

December 31, 2010

	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Performing loans	35,151,219	9,264,955	8,244,469	1,674,713	1,824,229	56,159,585
Watch listed loans	927,771	444,659	305,017	193,801	-	1,871,248
Loans under legal follow - up	973,892	378,569	471,482	313,781	18,044	2,155,768
Gross	**37,052,882**	**10,088,183**	**9,020,968**	**2,182,295**	**1,842,273**	**60,186,601**
Specific allowance for impairment	(848,030)	(228,111)	(419,342)	(195,100)	(17,381)	(1,707,964)
Collective allowance for impairment	(471,452)	(78,899)	(109,330)	(8,296)	(6,506)	(674,483)
Total allowance for impairment	**(1,319,482)**	**(307,010)**	**(528,672)**	**(203,396)**	**(23,887)**	**(2,382,447)**
Net	**35,733,400**	**9,781,173**	**8,492,296**	**1,978,899**	**1,818,386**	**57,804,154**
Current						29,997,872
Non-current						27,806,282

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

9. Loans and advances to customers (continued)

Fair value of collateral:

Collateral mainly comprises the following: cash funds, deposits, mortgages of real estate at the land registry and mortgages of real estate built on allocated land, export documents, guarantees, and acceptances and pledge on vehicles.

December 31, 2012

	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Watch listed loans	378,696	541,309	-	65,429	-	985,434
Loans under legal follow - up	293,403	37,981	-	94,300	-	425,684
Total	**672,099**	**579,290**	**-**	**159,729**	**-**	**1,411,118**

December 31, 2011

	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Watch listed loans	333,927	232,157	-	59,312	-	625,396
Loans under legal follow - up	302,664	52,892	-	91,951	-	447,507
Total	**636,591**	**285,049**	**-**	**151,263**	**-**	**1,072,903**

December 31, 2010

	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Watch listed loans	372,980	174,571	-	107,818	-	655,369
Loans under legal follow - up	190,853	80,735	-	101,858	-	373,446
Total	**563,833**	**255,306**	**-**	**209,676**	**-**	**1,028,815**

Included in the performing loans and advances to consumers, are loans amounting to TL 1,831,710 (at amortized cost) which have been designated as hedged items in fair value hedges as of December 31, 2012 (2011 - TL 2,767,669; 2010 - TL 2,072,176). 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.

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

9. Loans and advances to customers (continued)

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

						December 31, 2012
	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
At January 1	**1,500,984**	**280,646**	**395,460**	**164,310**	**26,005**	**2,367,405**
Provision for loan impairment	478,838	294,776	185,682	57,860	63,113	1,080,269
Amounts recovered during the year	(140,688)	(70,745)	(47,226)	(32,039)	(10,867)	(301,565)
Loans written off during the year as uncollectible (-) (*)	(296,454)	(51,117)	(143,529)	(32,884)	(19,303)	(543,287)
Exchange differences	(2,110)	(253)	(11)	533	(4)	(1,845)
At December 31	**1,540,570**	**453,307**	**390,376**	**157,780**	**58,944**	**2,600,977**

						December 31, 2011
	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
At January 1	**1,319,482**	**307,010**	**528,672**	**203,396**	**23,887**	**2,382,447**
Provision for loan impairment	294,075	370,974	179,321	71,240	2,879	918,489
Amounts recovered during the year	(120,103)	(341,583)	(154,848)	(37,331)	(765)	(654,630)
Loans written off during the year as uncollectible (-) (*)	(944)	(56,519)	(157,710)	(72,995)	-	(288,168)
Exchange differences	8,474	764	25	-	4	9,267
At December 31	**1,500,984**	**280,646**	**395,460**	**164,310**	**26,005**	**2,367,405**

						December 31, 2010
	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
At January 1	**1,463,691**	**424,211**	**1,037,263**	**161,414**	**17,590**	**3,104,169**
Provision for loan impairment	519,567	361,885	339,280	116,017	6,376	1,343,125
Amounts recovered during the year	(162,526)	(327,002)	(395,417)	(72,882)	(96)	(957,923)
Loans written off during the year as uncollectible (-) (*)	(502,267)	(152,133)	(452,455)	(1,153)	-	(1,108,008)
Exchange differences	1,017	49	1	-	17	1,084
At December 31	**1,319,482**	**307,010**	**528,672**	**203,396**	**23,887**	**2,382,447**

(*) Includes the effect of provision releases due to sales from loans under legal follow - up.

The Parent Bank sold its TL 626,078 (includes the capital and uncollected interest and other receivables) of nonperforming loan portfolio from Corporate, Commercial, Retail, SME and Credit Card businesses on October 31, 2012 for TL 66,823 to LBT Varlık Yönetimi A.Ş, Girişim Varlık Yönetimi A.Ş., Anadolu Varlık Yönetim A.Ş. and İstanbul Varlık Yönetimi A.Ş. through tender. The Bank had set aside provision for TL 491,100.

According to the Board of Directors meeting held on November 22, 2012 Yapı Kredi Leasing sold its TL 37.239 of nonperforming loan portfolio as of October 31, 2012 for TL 82 to LBT Varlık Yönetimi A.Ş, Girişim Varlık Yönetimi A.Ş., and İstanbul Varlık Yönetimi A.Ş..

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

9. Loans and advances to customers (continued)

According to the Board of Directors meeting held on November 22, 2012 Yapı Kredi Factoring sold its TL 19.303 of nonperforming loan portfolio as of December 5, 2012 for TL 70 to LBT Varlık Yönetimi A.Ş, Girişim Varlık Yönetimi A.Ş., and İstanbul Varlık Yönetimi A.Ş..

According to the resolution of the Board of Directors of the Bank dated November 24, 2011, a portfolio composed of non-performing consumer loans and credit card loans amounting to TL 290,277 as of October 31, 2011, was sold to LBT Varlık Yönetim A.Ş. for a total consideration of TL 45,801 and with a gain of TL 5,013.

According to the resolution of the Board of Directors of Yapı Kredi Leasing dated November 28, 2011; as a result of the studies performed in accordance with the confidentiality agreements about the auction sale of selected portfolios composed of overdue receivables of the company, portfolio followed under non-performing loan accounts amounting to TL 34,481 as of October 31, 2011 was sold to Anadolu Varlık Yönetim A.Ş. for a total consideration of TL 1,500.

According to the resolution of the Board of Directors of the Bank dated November 25, 2010; portfolios composed of SME loans, consumer loans and credit cards followed under non-performing loan accounts are sold according to auction and confidentiality agreements. Consumer and SME loan portfolio amounting to TL 170,867 as of October 31, 2010 was sold to Girişim Varlık Yönetim A.Ş. and Credit cards portfolio amounting to TL 256,955 as of October 31, 2010 was sold to LBT Varlık Yönetim A.Ş. for a total consideration of TL 56,045. Profit on this sale before taxes and legal expenses amounted to TL 55,074.

According to the resolution of the Board of Directors of the Bank dated May 26, 2010, portfolios composed of corporate and commercial loans followed under non-performing loan accounts are sold according to auction and confidentiality agreements. Corporate and commercial loan portfolio with principal amounting to TL 298,741 including TL 28,328 as legal and other expenses as of April 30, 2010 was sold to LBT Varlık Yönetim A.Ş. for a consideration of TL 7,518. Profit on this sale before taxes and legal expenses amounted to TL 5,020.

According to the resolution of the Board of Directors of the Parent Bank dated March 15, 2010, portfolios composed of SME loans, consumer loans and credit cards followed under non-performing loan accounts are sold according to auction and confidentiality agreements. Consumer loan portfolio with principal amounting to TL 74,606 as of February 28, 2010 was sold to Standart Varlık Yönetim A.Ş. for a consideration of TL 6,450, credit card portfolio with principal amounting to TL 381,973 as of February 28, 2010 was sold to Girişim Varlık Yönetim A.Ş. for a consideration of TL 32,435 and SME loan portfolio with principal amounting to TL 224,390 as of February 28, 2010 was sold to LBT Varlık Yönetim A.Ş. for a consideration of TL 31,232. Profit on these sales before taxes and legal expenses amounted to TL 11,817. TL 181,200 of the total principal amount sold was written off in prior periods.

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

	December 31, 2012	December 31, 2011	December 31, 2010
Gross investment in direct finance leases	3,685,642	3,395,456	2,457,777
Unearned finance income	(499,425)	(504,362)	(341,840)
	3,186,217	**2,891,094**	**2,115,937**
Interest accrual on receivables	26,526	27,229	29,760
Receivables from outstanding lease payments	23,534	26,362	36,598
Provision for impaired lease receivables	(157,780)	(164,310)	(203,396)
Net investment in direct finance leases	**3,078,497**	**2,780,375**	**1,978,899**

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

9. Loans and advances to customers (continued)

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

	December 31, 2012	December 31, 2011	December 31, 2010
Less than 1 year	1,240,041	1,031,699	821,382
More than 1 year but not later than 5 years	1,916,961	1,776,296	1,145,621
Later than 5 years	195,999	245,433	49,550
Less: unearned finance income	(499,425)	(504,362)	(341,840)
Investment in performing lease receivables	**2,853,576**	**2,549,066**	**1,674,713**

10. Investment securities

(i) Securities available-for-sale

	December 31, 2012	December 31, 2011	December 31, 2010
Debt securities - at fair value:			
Government bonds and treasury bills	5,891,154	4,648,540	3,402,886
Eurobonds	5,272,000	1,083,123	869,249
Government and corporate bonds and treasury bills sold under repurchase agreements	698,990	705,903	212,492
Eurobonds sold under repurchase agreements	1,940,279	-	-
Other	1,829,398	1,556,284	1,374,753
Equity securities - at fair value			
Listed	-	-	240
Unlisted	24,957	23,751	22,136
Total securities available-for-sale	**15,656,778**	**8,017,601**	**5,881,756**
Current	1,554,038	1,420,408	259,165
Non-current	14,102,740	6,597,193	5,622,591

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.

Net gains from changes in the fair value of available-for-sale investment securities, net of tax is TL 1,606,167 (2011 - TL 272,516 net losses; 2010 - TL 96,447 net gains). There are no impairments recognized for available-for-sale debt securities.

The movement in available-for-sale securities during the years is as follows:

	December 31, 2012	December 31, 2011	December 31, 2010
At January 1	**8,017,601**	**5,881,756**	**2,029,573**
Additions	3,768,824	4,462,379	9,624,918
Disposals / redemption	(3,609,598)	(2,119,598)	(5,900,619)
Transfers	5,412,380	-	-
Changes in fair value	2,021,133	(319,914)	121,518
Exchange differences on monetary assets	46,438	112,978	6,366
At December 31	**15,656,778**	**8,017,601**	**5,881,756**

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

10. Investment securities (continued)

As per the legislation on capital adequacy (Basel II) effective starting from July 1, 2012, the risk weight of securities in foreign currencies issued by the Turkish Treasury increased from 0% to 50%. Accordingly, in the current period in accordance with the requirements of IAS 39, the Bank sold part of its foreign currency securities issued by the Turkish Treasury with a total nominal value of USD 378,400 thousand and classified to Available for Sale Portfolio with a total nominal value of USD 2,969,624 thousand from its held-to-maturity portfolio as a result of increase in the risk weights of held-to-maturity investments used for regulatory risk-based capital purposes. The carrying value and the fair value of the transferred securities are USD 3,110,538 and USD 3,764,123 respectively at the date of the transfer.

(ii) Securities held-to-maturity

	December 31, 2012	December 31, 2011	December 31, 2010
Debt securities - at amortized cost - listed:			
Government bonds and treasury bills	1,588,275	3,348,279	5,248,357
Eurobonds	1,140,637	2,762,711	3,992,525
Government bonds and treasury bills sold under repurchase agreements	1,727,267	300,525	224,251
Eurobonds sold under repurchase agreement	1,285,931	6,166,696	3,409,920
Foreign government bonds[1]	85,584	132,411	99,891
Total securities held-to-maturity	**5,827,694**	**12,710,622**	**12,974,944**
Current	70,451	271,177	2,218,609
Non-current	5,757,243	12,439,445	10,756,335

(1) Necessary impairment provision has been provided for foreign government securities of Eurozone sovereign countries held in Group companies where the Group has insignificant amount of exposure.

The movement in held-to-maturity securities during the years is as follows:

	December 31, 2012	December 31, 2011	December 31, 2010
At January 1	**12,710,622**	**12,974,944**	**13,318,719**
Additions	50,325	563,716	3,020,222
Sales and redemptions	(946,471)	(2,501,567)	(3,383,510)
Transfers	(5,412,380)	-	-
Other[1]	(574,402)	1,673,529	19,513
At December 31	**5,827,694**	**12,710,622**	**12,974,944**

(1) Includes the effect of exchange differences, impairment and changes in interest income accruals

Government bonds, treasury bills and Eurobonds are mainly discount and coupon securities issued by the Government of the Republic of Turkey.

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

10. Investment securities (continued)

As per the legislation on capital adequacy (Basel II) effective starting from July 1, 2012, the risk weight of securities in foreign currencies issued by the Turkish Treasury increased from 0% to 50%. Accordingly, in the current period in accordance with the requirements of IAS 39, the Bank sold part of its foreign currency securities issued by the Turkish Treasury with a total nominal value of USD 378,400 thousand and classified to Available for Sale Portfolio with a total nominal value of USD 2,969,624 thousand from its held-to-maturity portfolio as a result of increase in the risk weights of held-to-maturity investments used for regulatory risk-based capital purposes. The carrying value and the fair value of the transferred securities are USD 3,110,538 and USD 3,764,123 respectively at the date of the transfer.

11. Investment in associate

	December 31, 2012	December 31, 2011	December 31, 2010
At January 1	**183,940**	**71,906**	**58,939**
Share of results	18,982	17,035	8,744
Dividends paid	(2,069)	(2,489)	(2,069)
Exchange difference	(6,919)	13,842	6,292
Other[1]	-	83,646	-
At December 31	**193,934**	**183,940**	**71,906**

(1) As at December 31, 2011 the amount includes the effect of updating equity pick-up by an amount of TL 83,646 based on financial statements prepared in accordance with International Financial Reporting Standards that were made available this period.

12. Investment in joint venture valued at net equity

As at December 31, 2012, the Group has one investment in jointly controlled entity.

	December 31, 2012	December 31, 2011	December 31, 2010
At January 1	**19,650**	**22,265**	**24,683**
Share of results	(1,191)	(2,615)	(2,418)
At December 31	**18,459**	**19,650**	**22,265**

13. Goodwill

	December 31, 2012	December 31, 2011	December 31, 2010
At January 1	**1,023,528**	**1,023,528**	**1,023,528**
Impairment charge	-	-	-
At December 31	**1,023,528**	**1,023,528**	**1,023,528**

Goodwill is reviewed annually for impairment, or more frequently when there are indications that impairment may have occurred. +1/-1% change in discount rate and growth rate used in the valuation model does not result in an impairment.

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

13. Goodwill (continued)

The recoverable amount of the goodwill have been determined based on value in use calculations, using cash flow projections based on IFRS financial budgets approved by management and on strategic plans covering a five year period. The calculation of value in use ("VIU") is most sensitive to interest margin, discount rates, market share, projected growth rates and local economic indicators.

Discount rates used in the calculations reflect the current market assessment of the Bank's operations. The method for determining the pre-tax discount rate is to first calculate the VIU using post tax cash flows and discount rates, then solving for the pre-tax discount rate which gives the same VIU as in the post tax calculation. Pre-tax discount rate is assumed to be 15.83%. Terminal value is calculated with a long term growth rate of 4%.

Based on the analysis performed, management believes that there is no indication for an impairment for goodwill at December 31, 2012 (2011 - None; 2010 - None).

14. Other intangible assets

	December 31, 2012	December 31, 2011	December 31, 2010
Cost	634,879	519,011	427,847
Accumulated amortization	(252,839)	(214,248)	(164,180)
Net book amount	**382,040**	**304,763**	**263,667**

Movements of other intangible assets were as follows:

December 31, 2012	Rights and licenses	Software	Trademarks and customer relationships related intangibles	Total
Cost				
At January 1	**182,148**	**173,779**	**163,084**	**519,011**
Additions	115,900	41,174	-	157,074
Disposals	(28,283)	(12,765)	-	(41,048)
Transfers	(6,693)	6,693	-	-
Translation differences	(15)	(143)	-	(158)
At December 31	**263,057**	**208,738**	**163,084**	**634,879**
Accumulated amortization				
At January 1	**(44,984)**	**(67,314)**	**(101,950)**	**(214,248)**
Amortization charge (Note 32)	(19,159)	(37,433)	(16,344)	(72,936)
Disposals	22,002	12,315	-	34,317
Transfers	49	(49)	-	-
Translation differences	3	25	-	28
(Reversal of) impairment	-	-	-	-
At December 31	**(42,089)**	**(92,456)**	**(118,294)**	**(252,839)**
Net book amount at December 31	**220,968**	**116,282**	**44,790**	**382,040**

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

14. Other intangible assets (continued)

December 31, 2011	Rights and licenses	Software	Trademarks and customer relationships related intangibles	Total
Cost				
At January 1	121,869	142,894	163,084	427,847
Additions	78,403	25,964	-	104,367
Disposals	(4,880)	(11,060)	-	(15,940)
Transfers	(13,256)	15,682	-	2,426
Translation differences	12	299	-	311
At December 31	182,148	173,779	163,084	519,011
Accumulated amortization				
At January 1	(31,871)	(46,690)	(85,619)	(164,180)
Amortization charge (Note 32)	(14,323)	(29,370)	(16,331)	(60,024)
Disposals	1,215	11,051	-	12,266
Transfers	-	(2,265)	-	(2,265)
Translation differences	(5)	(40)	-	(45)
(Reversal of) impairment	-	-	-	-
At December 31	(44,984)	(67,314)	(101,950)	(214,248)
Net book amount at December 31	137,164	106,465	61,134	304,763

December 31, 2010	Rights and licenses	Software	Trademarks and customer relationships related intangibles	Total
Cost				
At January 1	98,801	78,219	163,084	340,104
Additions	55,557	35,118	-	90,675
Disposals	(1,072)	(1,850)	-	(2,922)
Transfers	(31,416)	31,416	-	-
Translation differences	(1)	(9)	-	(10)
At December 31	121,869	142,894	163,084	427,847
Accumulated amortization				
At January 1	(21,690)	(32,664)	(69,309)	(123,663)
Amortization charge (Note 32)	(11,092)	(18,687)	(16,310)	(46,089)
Disposals	911	1,876	-	2,787
Transfers	-	-	-	-
Translation differences	-	15	-	15
(Reversal of) impairment	-	2,770	-	2,770
At December 31	(31,871)	(46,690)	(85,619)	(164,180)
Net book amount at December 31	89,998	96,204	77,465	263,667

The Group assigned a consultancy firm for the valuation of intangible assets determined as a credit card trademark, customer base and relationship that can be measured reliably and for which the future economic benefit is embodied in the asset during the merger of the Bank with Koçbank. In line with the report dated February 13, 2006 the Group recognized TL 163,084 of intangible assets in its consolidated financial statements. Identified intangible assets are amortized using the straight-line method over their useful lives, which have been assessed as 10 years. As of December 31, 2012, the net book value of these intangible assets amounts to TL 44,790 (2011 - TL 61,134; 2010 - TL 77,465).

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

15. Property and equipment

	December 31, 2012	December 31, 2011	December 31, 2010
Cost	3,807,546	3,747,876	3,963,878
Accumulated depreciation and impairment	(2,748,317)	(2,679,739)	(2,800,798)
Net book amount	**1,059,229**	**1,068,137**	**1,163,080**

December 31, 2012	Land and buildings	Office equipments	Furniture and fixtures, vehicles and other	Leasehold improvements	Total
Cost					
At January 1	**2,394,111**	**764,640**	**376,970**	**212,155**	**3,747,876**
Additions	4,444	76,654	39,129	39,208	159,435
Disposals	(12,719)	(17,447)	(21,934)	(46,458)	(98,558)
Transfers	-	(3,122)	3,122	-	-
Translation difference	5	(416)	(88)	(708)	(1,207)
At December 31	**2,385,841**	**820,309**	**397,199**	**204,197**	**3,807,546**
Accumulated depreciation and impairment					
At January 1	**(1,700,559)**	**(582,430)**	**(279,619)**	**(117,131)**	**(2,679,739)**
Depreciation charge (Note 32)	(41,506)	(63,149)	(21,758)	(36,752)	(163,165)
Disposals	9,528	17,310	21,169	45,825	93,832
Transfers	-	3,078	(3,078)	-	-
Recoveries	-	-	-	-	-
(Reversal of) impairment , net (Note 32)	137	-	-	-	137
Translation difference	(10)	282	39	307	618
At December 31	**(1,732,410)**	**(624,909)**	**(283,247)**	**(107,751)**	**(2,748,317)**
Net book amount at December 31	**653,431**	**195,400**	**113,952**	**96,446**	**1,059,229**

December 31, 2011	Land and buildings	Office equipments	Furniture and fixtures, vehicles and other	Leasehold improvements	Total
Cost					
At January 1	**2,714,794**	**702,046**	**357,196**	**189,842**	**3,963,878**
Additions	2,469	85,026	31,532	24,250	143,277
Disposals	(325,287)	(19,585)	(16,140)	(4,235)	(365,247)
Transfers	-	(4,169)	3,917	-	(252)
Translation difference	2,135	1,322	465	2,298	6,220
At December 31	**2,394,111**	**764,640**	**376,970**	**212,155**	**3,747,876**
Accumulated depreciation and impairment					
At January 1	**(1,902,858)**	**(541,483)**	**(269,221)**	**(87,236)**	**(2,800,798)**
Depreciation charge (Note 32)	(41,869)	(60,232)	(18,102)	(34,288)	(154,491)
Disposals	146,285	16,235	13,159	4,226	179,905
Transfers	-	3,980	(5,135)	1,246	91
Recoveries	-	-	-	-	-
(Reversal of) impairment , net (Note 32)	98,763	-	-	-	98,763
Translation difference	(880)	(930)	(320)	(1,079)	(3,209)
At December 31	**(1,700,559)**	**(582,430)**	**(279,619)**	**(117,131)**	**(2,679,739)**
Net book amount at December 31	**693,552**	**182,210**	**97,351**	**95,024**	**1,068,137**

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

15. Property and equipment (continued)

December 31, 2010	Land and buildings	Office equipments	Furniture and fixtures, vehicles and other	Leasehold improvements	Total
Cost					
At January 1	**2,808,133**	**659,475**	**339,977**	**163,925**	**3,971,510**
Additions	24,824	62,108	23,376	33,864	144,172
Disposals	(118,950)	(15,284)	(9,926)	(7,946)	(152,106)
Transfers	538	(4,263)	3,725	-	-
Translation difference	249	10	44	(1)	302
At December 31	**2,714,794**	**702,046**	**357,196**	**189,842**	**3,963,878**
Accumulated depreciation and impairment					
At January 1	**(1,985,788)**	**(499,479)**	**(263,674)**	**(66,386)**	**(2,815,327)**
Depreciation charge (Note 32)	(43,255)	(58,536)	(12,198)	(28,678)	(142,667)
Disposals	74,724	13,402	8,391	7,709	104,226
Transfers	(129)	3,095	(2,966)	-	-
Recoveries	-	-	-	-	-
(Reversal of) impairment , net (Note 32)	51,697	-	1,245	-	52,942
Translation difference	(107)	35	(19)	119	28
At December 31	**(1,902,858)**	**(541,483)**	**(269,221)**	**(87,236)**	**(2,800,798)**
Net book amount at December 31	**811,936**	**160,563**	**87,975**	**102,606**	**1,163,080**

At December 31, 2012, total impairment provision on property and equipment of the Parent Bank amounts to TL 347,952 (2011 - TL 348,961; 2010 - TL 572,699).

16. Other assets

	December 31, 2012	December 31, 2011	December 31, 2010
Collaterals given	789,954	529,135	497,601
Gold stocks	171,789	603,388	249,772
Due from insurance policyholders	343,387	253,679	194,680
Prepaid expenses	245,906	162,943	124,094
Repossessed assets, net	148,727	110,436	88,020
Payments for credit card settlements	135,662	104,355	67,831
Advances given	97,499	109,146	67,382
Accounts receivable	92,587	48,065	80,379
Other[(1)]	835,090	222,823	244,136
	2,860,601	**2,143,970**	**1,613,895**
Current	2,636,704	1,982,446	1,508,558
Non-current	223,897	161,524	105,337

(1) Other line item mainly consists of receivables from clearing houses related with interbank, credit card and cheque transactions.

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

16. Other assets (continued)

Repossessed assets represent mainly foreclosed assets received against uncollectible loans and advances to customers, to be sold as required by the Turkish Banking Law. These assets mainly consist of real-estates. The Group's policy is to dispose these assets within five years in accordance with Turkish Banking Law. Movements in assets held for resale during the years, were as follows:

	December 31, 2012	December 31, 2011	December 31, 2010
Cost			
At January 1	**122,159**	**101,285**	**112,202**
Additions	72,707	64,432	58,076
Disposals	(35,558)	(43,558)	(68,993)
Other	-	-	-
At December 31	**159,308**	**122,159**	**101,285**
Impairment			
At January 1	**(11,723)**	**(13,265)**	**(15,154)**
Impairment charge for the year, net (Note 32)	-	-	-
Disposals	1,142	1,542	1,889
Other	-	-	-
At December 31	**(10,581)**	**(11,723)**	**(13,265)**
Net book amount at December 31	**148,727**	**110,436**	**88,020**

17. Deposits from banks

	December 31, 2012			December 31, 2011			December 31, 2010		
	Demand	Term	Total	Demand	Term	Total	Demand	Term	Total
Foreign currency:									
Domestic banks	84	44,871	44,955	30,939	238,884	269,823	3,567	467,915	471,482
Foreign banks	166,053	731,873	897,926	15,772	853,023	868,795	30,770	743,408	774,178
Funds deposited under repurchase agreements	-	3,107,853	3,107,853	-	5,020,957	5,020,957	-	3,151,593	3,151,593
	166,137	**3,884,597**	**4,050,734**	**46,711**	**6,112,864**	**6,159,575**	**34,337**	**4,362,916**	**4,397,253**
TL:									
Domestic banks	197	260,877	261,074	10,657	91,987	102,644	65,954	92,353	158,307
Foreign banks	148,838	96,488	245,326	121,371	200,610	321,981	92,732	287,178	379,910
Funds deposited under repurchase agreements	-	1,685,426	1,685,426	-	873,184	873,184	-	-	-
	149,035	**2,042,791**	**2,191,826**	**132,028**	**1,165,781**	**1,297,809**	**158,686**	**379,531**	**538,217**
	315,172	**5,927,388**	**6,242,560**	**178,739**	**7,278,645**	**7,457,384**	**193,023**	**4,742,447**	**4,935,470**
Current	315,172	5,828,566	6,143,738	178,739	6,502,798	6,681,537	193,023	4,169,376	4,362,399
Non-current		98,822	98,822	-	775,847	775,847	-	573,071	573,071

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

18. Customer deposits

	December 31, 2012			December 31, 2011			December 31, 2010		
	Demand	Term	Total	Demand	Term	Total	Demand	Term	Total
Foreign currency deposits:									
Saving deposits	2,521,125	10,872,713	13,393,838	2,587,227	10,142,561	12,729,788	1,967,201	7,541,958	9,509,159
Commercial deposits	3,185,389	12,605,018	15,790,407	3,115,063	14,128,217	17,243,280	2,785,429	9,405,580	12,191,009
	5,706,514	**23,477,731**	**29,184,245**	**5,702,290**	**24,270,778**	**29,973,068**	**4,752,630**	**16,947,538**	**21,700,168**
TL deposits:									
Saving deposits	1,989,253	22,110,472	24,099,725	1,940,416	19,368,217	21,308,633	1,812,758	15,843,210	17,655,968
Commercial deposits	3,156,434	12,372,791	15,529,225	3,069,852	10,033,670	13,103,522	2,439,527	11,230,187	13,669,714
Funds deposited under repurchase agreements	-	25,583	25,583	-	30,572	30,572	-	67,825	67,825
Public sector deposits	598,082	282,831	880,913	136,025	102,059	238,084	320,896	76,379	397,275
	5,743,769	**34,791,677**	**40,535,446**	**5,146,293**	**29,534,518**	**34,680,811**	**4,573,181**	**27,217,601**	**31,790,782**
	11,450,283	**58,269,408**	**69,719,691**	**10,848,583**	**53,805,296**	**64,653,879**	**9,325,811**	**44,165,139**	**53,490,950**
Current	11,450,283	57,311,154	68,761,437	10,848,583	53,189,607	64,038,190	9,325,811	43,767,691	53,093,502
Non-current		958,254	958,254	-	615,689	615,689	-	397,448	397,448

19. Funds borrowed

	December 31, 2012	December 31, 2011	December 31, 2010
Foreign institutions and banks			
Syndication loans	4,428,844	4,627,686	3,385,043
Subordinated debt	3,450,738	2,523,816	2,110,274
Other	8,775,785	8,947,535	5,248,988
Total foreign	**16,655,367**	**16,099,037**	**10,744,305**
Domestic banks	1,089,701	1,107,681	1,439,039
Interbank money market and Settlement Custody Bank	1,654,815	961,180	431,598
Total domestic	**2,744,516**	**2,068,861**	**1,870,637**
	19,399,883	**18,167,898**	**12,614,942**
Current	11,973,224	12,104,782	7,761,132
Non-current	7,426,659	6,063,116	4,853,810

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. In addition, the subordinated loan obtained by Koçbank on April 27, 2006 amounting to EUR 350 million, with 10 years maturity and a repayment option at the end of 5 years has been transferred to the Bank. The interest rate is EURIBOR+3.25% (for the first five years it was EURIBOR+2.25%). The loan was obtained from Goldman Sachs International Bank with Unicredit S.p.A. as guarantor. The Bank has not exercised the early repayment option related to these two loans which was available as of the date of these financial statements. In addition, the 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 EURIBOR+2.78% (for the first 5 years it was EURIBOR+1.85%). The loan was obtained from Citibank, N.A., London Branch with Unicredito Italiano SpA as guarantor.

19. Funds borrowed (continued)

With the written approvals of the BRSA dated April 3, 2006, 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 Capital Adequacy Regulation.

According to the Regulation, subordinated loans obtained from Merrill Lynch Capital Corporation and Goldman Sachs International Bank are considered in the supplementary capital calculation at the rate of 80% as the remaining maturity of these loans is less than 5 years.

The Bank obtained a subordinated loan from UniCredit Bank Austria AG, amounting to USD 585 million, with 10 years maturity and a repayment option by the borrower at the end of 5 years, at an interest rate of 3 months LIBOR+8,30%. According to the authorization of BRSA dated February 20, 2012, this loan has been utilized as subordinated loan in compliance with the conditions of Regulation Regarding Banks' Shareholders' Equity.

On March 2012, the Bank signed loan agreement amounting to EUR 15 million for financing of eligible SME sub-projects under CEB's SME loan facility through UniCredit S.p.A

On May 3, 2012, the Bank obtained a syndicated loan from 44 international banks, comprised of two tranches in the amount of U.S.$264 million and EUR 864.5 million with a total cost of LIBOR +1.45% and EURIBOR + 1.45%, respectively. The loan is under a dual tranche multi-currency term loan facility agreement and matures on May 2, 2013. This loan facility replaced the syndicated loan that was signed in April 2011 and is intended to finance pre-export and export credit facilities available to Turkish export.

On October 3, 2012, the Bank obtained a syndicated loan from 37 international banks, comprised of two tranches in the amount of U.S.$322 million (TL 560 million) and EUR 618 million (TL 1,075 million) with total cost of LIBOR +1.35% and EURIBOR + 1.35%, respectively. The loan is under a dual tranche multi-currency term loan facility agreement and matures on October 3, 2013. This loan facility replaced the syndicated loan that was signed in September 2011.

20. Debt securities in issue

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

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

On December 6, 2012, the Bank finalized a subordinated debt issuance of U.S.$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.

The Parent Bank has a securitisation borrowing deal from Standard Chartered Bank and Unicredit Markets and Investment Banking amounting USD 264 million and EUR 139 million, the equivalent of TL 778.703 using Yapı Kredi Diversified Payment Rights Finance Company ("Special Purpose Entity") as an intermediary and Assured Guaranty, MBIA, Radian, Ambac, FGIC and XL Capital as guarantors. The borrowing has floating interest rates based on Euribor/Libor, the maturity is between 2014 and 2015. The repayments commenced in 2010, and during 2012, a total of TL 396.868 was repaid (December 31, 2011 - TL 387.701)

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

20. Debt securities in issue (continued)

The Bank also entered into a securitisation borrowing deal in August and September 2011, with Standard Chartered Bank, Wells Fargo, West LB and SMBC amounting to USD 225 million and EUR 206 million, the equivalent of TL 863.027 using Yapı Kredi Diversified Payment Rights Finance Company ("Special Purpose Entity"). The borrowing has floating interest rates based on Euribor/Libor, the maturity is between 2016 and 2023 and repayments will start in the last quarter of 2013.

	December 31, 2012	December 31, 2011	December 31, 2010
Securitization borrowings	1,641,731	2,147,781	1,375,419
Bills	716,171	951,004	-
Bonds	3,333,507	144,350	-
Other	-	5,582	19,485
	5,691,409	**3,248,717**	**1,394,904**
Current	1,333,613	1,525,275	348,969
Non-current	4,357,796	1,723,442	1,045,935
	5,691,409	**3,248,717**	**1,394,904**

21. Taxation

	December 31, 2012	December 31, 2011	December 31, 2010
Current tax expense	(771,903)	(503,926)	(557,370)
Deferred tax income / (expense)	156,565	(39,201)	(5,781)
	(615,338)	**(543,127)**	**(563,151)**

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.

Through the enactment of Corporate Tax Law No.5520 ("New Corporate Tax Law") published in the Official Gazette No.26205 dated June 21, 2006, corporation tax is payable at the rate of 20% effective from January 1, 2006 on the total income of the entities in Turkey after adjusting for certain disallowable expenses, exempt income and investment and other allowances. No further tax is payable unless the profit is distributed.

Dividends paid to non-resident corporations, which have a place of business in Turkey, or resident corporations are not subject to withholding tax. Otherwise, dividends paid are subject to withholding tax at the rate of 15%.

Corporations are required to pay advance corporate tax quarterly at a rate of 20% on their corporate income. Advance tax is declared by the 14th and paid by the 17th day of the second month following each calendar quarter end. Advance tax paid by corporations for the current period is credited against the annual corporation tax calculated on the annual corporate income in the following year. Despite the offset, if there is temporary prepaid tax remaining, this balance can be refunded or used to offset any other financial liabilities to the government.

21. Taxation (continued)

75% portion of the capital gains derived from the sale of equity investments and immovable properties held for at least two years is tax exempt, if such gains are added to paid-in capital or kept in a special fund for 5 years in accordance with the New Corporate Tax Law.

Under the Turkish taxation system, tax losses can be carried forward for offset against future taxable income for up to 5 years. Tax losses cannot be carried back to offset profits from previous periods.

In Turkey, there is no procedure for a final and definitive agreement on tax assessments. Corporations file their tax returns within the 25th of the fourth month following the close of the financial year to which they relate. Tax returns are open for 5 years from the beginning of the year that follows the date of filing during which the tax authorities have the right to audit tax returns, and the related accounting records on which they are based, and if they find any corrections then the tax amount to be paid might be changed as well.

Under the investment allowance regime applicable as of December 31, 2005, capital expenditures, with some exceptions, over TL10 thousand are eligible for investment incentive allowance of 40% and exempted from corporate income tax and this allowance is not subject to withholding tax without the requirement of an investment incentive certificate. Investment allowances calculated are deferred to the following years in cases where corporate income is insufficient. Investment allowances utilized within the scope of investment incentive certificates granted prior to April 24, 2003 in accordance with provisions of Income Tax Law Temporary Article 61 are subject to withholding tax at the rate of 19.8%, irrespective of profit distribution.

As of January 1, 2006, the investment allowance regime has been abolished with Law No.5479.

Under the temporary article 69 of Income Tax Law, a transition period of three years has been provided for income and corporate taxpayers which have investment incentive allowance rights as of December 31, 2005, which have not yet utilized and which have been deferred to the following years where corporate income may be insufficient and where investment allowance will be earned from the investment expenditures made for the ongoing projects as of December 31, 2005. According to this, investment allowances which are calculated in accordance with temporary article 61 and article no: 19 of the Income Tax Law can be utilized for the income generated in the years 2006, 2007 and 2008 in accordance with the articles valid on December 31, 2005. Therefore the applicable corporate tax rate is 30% in case of benefiting from investment allowances. Tax payers have to inform the relevant tax office until the submission date of the first quarter advance tax return that they opt to utilize investment allowance in accordance with the Circular numbered KVK-3 /2006-3 /Investment Allowance 2 issued by Ministry of Finance. The choice of benefiting from investment allowance can not be changed in the annual tax return term.

As per the Law numbered 6009, taxpayers are permitted to deduct the investment incentive amount to a limit that does not exceed 25% of the related revenues (within the context of December 31, 2005 legislation including the provision on tax rate stated in the second paragraph of temporary Article 61 of income tax legislation) from their income subject to tax.

In the Constitutional Court's meeting dated February 9, 2012; it was decided that the sentence "In so far as, the amount to be deducted as investment allowance in the determination of tax base cannot exceed 25% of the related profit" added to the first paragraph of the article 69 of the Income Tax Law with the article 5 of the Law no. 6009 was unconstitutional and would be cancelled. Furthermore, since the sentence in question was cancelled in the same meeting with the decision no. E. 2010/93, K. 2012/20 dated February 9, 2012, it was decided that the it would be invalidated until it was published on the Official Gazette in order to prevent situations and losses emerging from the application of this sentence, which were difficult to recover, and not to leave the cancellation decision inconclusive. This decision was published on the Official Gazette on February 18, 2012. Consequently, since the Company benefits from the present investment incentive exemption, no corporate tax provision has arisen as of December 31, 2012.

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

21. Taxation (continued)

Apart from the above mentioned exemptions considered in the determination of the corporate income tax base, allowances stated in Corporate Income Tax Law Article 8, 9 and 10, and Income Tax Law Article 40 are also taken into consideration.

Reconciliation between the theoretical tax amount that would arise using the basic tax rate of the Parent Bank and the actual taxation charge for the year is stated below:

	December 31, 2012	December 31, 2011	December 31, 2010
Profit before income taxes	**2,915,812**	**2,943,564**	**2,798,885**
Theoretical income tax at the applicable tax rate of 20%	583,162	588,713	559,777
Effect of different tax rates in other countries	1,587	2,300	5,308
Non-taxable consolidation adjustments	1,043	(16,374)	(652)
Tax effect of items which are not deductible or assessable for taxation purposes:			
- Income exempt from taxation	(27,648)	(33,197)	(21,408)
- Non-deductible expenses for tax purposes	58,442	45,516	27,602
Utilization of investment incentive	-	(43,676)	(7,463)
Utilized tax loss carry forward	-	-	-
Other	(1,248)	(155)	(13)
Income tax expense	**615,338**	**543,127**	**563,151**

As at December 31, 2011, the Bank has submitted its application to Boğaziçi Corporate Tax Authority and Taxpayers Office to claim for the benefit of the tax amnesty (the Law numbered 6111) regarding 6 tax penalties resulting from tax inspectors' review of 2005, 2006, 2007, 2009 and 2010 fiscal years. As a result of this application, the restructured tax payable amounting to TL 1,332 is paid on due date at once.

In addition, Group companies which have submitted application regarding this law have paid amounts of no significance.

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

21. Taxation (continued)

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 December 31, 2012 (2011 - 20%; 2010 - 20%).

For foreign subsidiaries deferred income taxes are calculated on all temporary differences under the liability method using the principal tax rates at December 31, 2012, 2011 and 2010 which are as follows:

			Tax rate (%)
Country of incorporation	**December 31, 2012**	**December 31, 2011**	**December 31, 2010**
Russia	20.00	20.00	20.00
Netherlands	25.00	25.00	25.50
Azerbaijan	20.00	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		
	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2012	December 31, 2011	December 31, 2010
Impairment on assets	486,054	487,269	709,041	59,458	59,701	75,221
Allowance for loan impairment	1,164,484	1,010,000	966,336	231,531	200,775	192,730
Pension benefits transferable to the Social Security Institution ("SSI") (Note 23)	827,177	775,286	838,036	165,435	155,057	167,607
Reserve for employment termination benefits (Note 23)	131,780	113,983	101,700	26,816	22,999	20,486
Revaluation of derivative instruments at fair value	1,299,005	1,050,724	812,831	257,260	209,998	158,262
Valuation differences on investment securities	642,440	198,970	29,367	128,460	39,796	5,883
Other	676,845	760,995	863,813	135,149	151,990	174,434
Deferred income tax assets	**5,227,785**	**4,397,227**	**4,321,124**	**1,004,109**	**840,316**	**794,623**
Difference between carrying value and tax base of property and equipment	638,237	647,017	944,583	79,425	81,025	97,174
Valuation differences on investment securities	1,888,338	182,145	130,270	377,318	36,080	25,704
Revaluation of derivative instruments at fair value	767,365	821,361	956,156	146,480	164,932	186,416
Assets capitalised under finance leases	-	-	-	-	-	-
Other	129,799	37,559	53,253	33,983	6,544	11,272
Deferred income tax liabilities	**3,423,739**	**1,688,082**	**2,084,262**	**637,206**	**288,581**	**320,566**
Deferred income tax assets, net	**1,804,046**	**2,709,145**	**2,236,862**	**366,903**	**551,735**	**474,057**

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

21. Taxation (continued)

The movements of net deferred income taxes during the years were as follows:

	December 31, 2012	December 31, 2011	December 31, 2010
Balance at January 1	**551,735**	**474,057**	**482,790**
(Charge) / credit for the year, net	156,565	(39,201)	(5,781)
Available-for-sale revaluation reserve	(399,834)	49,161	(24,054)
Net investment hedge	(4,011)	17,792	(3,897)
Cash flow hedge	63,070	51,675	25,457
Translation difference	(622)	(1,749)	(458)
Balance at December 31	**366,903**	**551,735**	**474,057**

There are no deductible temporary differences for which no deferred tax asset is recognized in the statement of financial position (2011 - None; 2010 - None).

Income tax effects relating to components of other comprehensive income

	December 31, 2012			December 31, 2011			December 31, 2010		
	Before tax amount	Tax (expense) benefit	Net-of tax amount	Before tax amount	Tax (expense) benefit	Net-of tax amount	Before tax amount	Tax (expense) benefit	Net-of tax amount
Foreign currency translation differences	(35,101)	-	(35,101)	141,035	-	141,035	(7,886)	-	(7,886)
Fair value gains on available-for- sale financial assets (including translation difference)	2,006,623	(400,456)	1,606,167	(319,928)	47,412	(272,516)	120,959	(24,512)	96,447
Net investment hedge	20,055	(4,011)	16,044	(88,958)	17,792	(71,166)	19,484	(3,897)	15,587
Cash flow hedge	(315,353)	63,070	(252,283)	(258,378)	51,675	(206,703)	(127,285)	25,457	(101,828)
Other comprehensive income for the year (net presentation)	**1,676,224**	**(341,397)**	**1,334,827**	**(526,229)**	**116,879**	**(409,350)**	**5,272**	**(2,952)**	**2,320**

22. Other provisions

	December 31, 2012	December 31, 2011	December 31, 2010
Provision for losses on credit related commitments	256,754	204,871	189,660
Tax and other legal provisions	186,317	151,960	124,712
Provisions on credit cards and promotion campaigns	36,708	33,905	39,697
Provision on export commitment estimated liability	38,106	37,251	39,486
Other	164,134	37,850	63,630
	682,019	**465,837**	**457,185**
Current	64,169	25,188	52,722
Non-current	617,850	440,649	404,463

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

22. Other provisions (continued)

Credit related commitments provision

The Group management has estimated losses that may arise from credit related commitments and has recognized a provision of TL 256,754 (2011 - TL 204,871; 2010 - TL 189,660).

Tax and other legal provisions

The Group has recorded a provision of TL 48,743 (2011 - TL 43,528; 2010 - TL 35,886) 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 137,574 (2011 - TL 108,432; 2010 - TL 88,826) against potential tax risks in the form of possible tax duties and penalties in the consolidated financial statements for the year ended December 31, 2012.

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 38,106 (2011 - TL 37,251; 2010 - TL 39,486).

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	December 31, 2012 Total	December 31, 2011 Total	December 31, 2010 Total
At January 1	204,871	151,960	33,905	37,251	37,850	465,837	457,185	397,871
Provision charged / (released)	51,901	42,773	132,742	855	137,572	365,843	136,410	196,911
Provision used	-	(8,416)	(129,939)	-	(11,283)	(149,638)	(127,550)	(137,130)
Translation difference	(18)	-	-	-	(5)	(23)	(208)	(467)
Balance at December 31	256,754	186,317	36,708	38,106	164,134	682,019	465,837	457,185

In addition, as a result of preliminary research conducted in the banking sector regarding the interest rates, an investigation process is initiated on some banks including the Bank according to the Competition Board decision dated November 2, 2011 and no 11-55/1438-M to determine whether there is a violation of the 4th article of the Protection of Competition Law No. 4054, and the process is still ongoing.

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

23. Retirement benefit obligations

	December 31, 2012	December 31, 2011	December 31, 2010
Statement of financial position obligations for:			
- Post employment benefits (pension and medical) transferable to SSI	827,177	775,286	838,036
- Reserve for employment termination benefits	131,780	113,983	101,700
	958,957	**889,269**	**939,736**
Income statement (charge) / credit for:			
- Post employment benefits (pension and medical) transferable to SSI	(51,891)	62,750	26,023
- Reserve for employment termination benefits	(49,628)	(36,817)	(19,705)
	(101,519)	**25,933**	**6,318**

Income statement charge for retirement benefit obligations has been recognized as a separate line item in the income statement for the years ended December 31, 2012, 2011 and 2010.

The cash payments to the Fund by the Group which represent the employers' contribution during the year amounting to TL 132,941 (2011 - TL 119,672; 2010 - TL 107,517) has been included staff cost expenses under operating expenses (Note 32).

(i) Post-employment benefits (pension and medical) transferable to SSI

The Parent Bank's personnel are members of the Yapı ve Kredi Bankası Anonim Şirketi Mensupları Yardım ve Emekli Sandığı Vakfı ("the Fund") which was established in accordance with the 20th temporary article of the Social Security Law No. 506. The technical financial statements of the Fund are audited in accordance with the Article 38 of the Insurance Supervision Law and the "Regulation Regarding the Actuaries" by a registered independent actuary.

Temporary article 23 paragraph one of the Banking Act published in the Official Gazette No 25983 dated November 1, 2005 stated that foundations like the Fund are to be transferred to the Social Security Institution ("SSI") within three years beginning from the publication date of the article.

The article of the Law related to the transfer was cancelled (pursuant to the application by the President on November 2, 2005) by the decision of Constitutional Court (decision no: E.2005/39, K. 2007/33 dated March 22, 2007) published in the Official Gazette No. 26479 dated March 31, 2007, and the effect of the law article was suspended from the date of the publication of the decision.

The reasoning of the Constitutional Court regarding the abrogation of the corresponding article was published in the Official Gazette dated December 15, 2007, No 26372. With the publication of the reasoning of the decision, the Grand National Assembly of Turkey ("GNAT") started to work on new legal arrangements regarding the transfer of the fund members to SSI and the related articles of the "Law Regarding the Changes in Social Insurance and General Health Insurance Law and Other Related Laws and Regulations" No 5754 ("the New Law") regulating the transfer of the funds were approved by the GNAT on April 17, 2008. The New Law was published in the Official Gazette No. 26870 dated May 8, 2008. With the new law, the banks' pension funds will be transferred to SSI within three years from the date of publication of the decree and this period can be extended for a maximum of two years with the decision of the Council of Ministers. The transfer period was extended for another two years with the decision of the Council of Ministers No. 2011/1559 published in the Official Gazette dated April 9, 2011. According to the "Amendment of Social Insurance and General Health Insurance Law No. 6283" published in the Official Gazette dated March 8, 2012, Council of Ministers was authorized to increase the two-year extension period mentioned above to four years.

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

23. Retirement benefit obligations (continued)

A commission (whose members are the representatives of the SSI, the Ministry of Finance, Turkish Treasury, State Planning Organization, BRSA, Saving Deposit Insurance Fund ("SDIF"), one member representing the Fund and one member representing the Fund members) is in charge of the calculation of the value of the payment that would need to be made to SSI to settle the obligation using a technical interest rate of 9,8% by law taking into consideration income and expenses by insurance branches of the funds and the excess of salaries and income paid by the funds over the salaries and income to be paid in accordance with the SSI arrangements which should not be less than SSI arrangements, related to the members of the Fund as of the date of the transfer including the members who have left the scheme.

In accordance with the New Law, after the transfer to SSI, any social rights and payments to Fund members and their beneficiaries which are not provided although they are included in the Fund Title Deed will continue to be provided by the Fund and the employers of the Fund members.

The Parent Bank accounts for a provision for the technical deficit based on the report prepared by a registered actuary in accordance with the rates determined by the New Law.

The actuarial statement of financial position of the Fund has been prepared in accordance with a technical interest rate of 9.80% and CSO 1980 mortality table and reflects a technical deficit of TL 827,177 on December 31, 2012 (2011 - TL 775,286; 2010: TL 838,036).

The Group's obligation in respect of the post-employment pension and medical benefits transferable to SSI has been determined as the value of the payment that would need to be made to SSI to settle the obligation at the statement of financial position date in accordance with the related article of the New Law and other related laws and regulations. The pension disclosures set out below therefore reflect the actuarial parameters and results in accordance with the New Law provisions.

The amounts recognized in the statement of financial position are determined as follows:

	December 31, 2012	December 31, 2011	December 31, 2010
Present value of funded obligations	1,538,766	1,293,105	1,279,566
- Pension benefits transferable to SSI	*1,564,411*	*1,250,572*	*1,183,533*
- Post-employment medical benefits transferable to SSI	*(25,645)*	*42,533*	*96,033*
Fair value of plan assets	(711,589)	(517,819)	(441,530)
Liability in the statement of financial position	**827,177**	**775,286**	**838,036**

The movement in the defined benefit obligation over the years is as follows:

	Defined benefit pension plans			Post-employment medical benefits		
	December 31, 2012	December 31, 2011	December 31, 2010	December 31, 2012	December 31, 2011	December 31, 2010
At January 1	**1,250,572**	**1,183,533**	**1,077,965**	**42,533**	**96,033**	**161,168**
Current service cost	79,358	71,393	64,109	53,583	48,279	43,408
Interest cost	122,556	115,986	105,640	4,168	9,411	15,794
Contributions by plan participants	67,334	60,576	54,396	35,722	32,186	28,939
Actuarial losses/(gains)	199,341	(44,357)	1,917	(127,549)	(136,811)	(122,777)
Benefits paid	(154,750)	(136,559)	(120,494)	(34,102)	(6,565)	(30,499)
At December 31	**1,564,411**	**1,250,572**	**1,183,533**	**(25,645)**	**42,533**	**96,033**

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

23. Retirement benefit obligations (continued)

The principal actuarial assumptions used were as follows:

	December 31, 2012	December 31, 2011	December 31, 2010
	(%)	(%)	(%)
Discount rate			
- Pension benefits transferable to SSI	9.80	9.80	9.80
- Post-employment medical benefits transferable to SSI	9.80	9.80	9.80

The effects of a 1% movement in the assumed medical cost trend rate were as follows:

	Increase/ decrease
Effect on the aggregate of the current service cost and interest cost	42
Effect on the defined benefit obligation	7,302

Mortality rate

The average life expectancy in years of a pensioner retiring at age 66 for men, 64 for women on the statement of financial position date is as follows:

	December 31, 2012	December 31, 2011	December 31, 2010
Male	13	14	15
Female	18	18	19

The movement in the fair value of plan assets of the year is as follows:

	December 31, 2012	December 31, 2011	December 31, 2010
At January 1	**517,819**	**441,530**	**375,074**
Actual return on plan assets	181,739	80,876	68,445
Employer contributions	79,358	71,395	64,109
Employee contributions	67,334	60,577	54,396
Benefits paid	(134,661)	(136,559)	(120,494)
At December 31	**711,589**	**517,819**	**441,530**

Plan assets are as follows:

	December 31, 2012		December 31, 2011		December 31, 2010	
Government bonds and treasury bills	173,291	24%	195,456	38%	154,902	35%
Property and equipment	229,547	32%	116,055	22%	116,393	27%
Bank placements	265,346	37%	167,717	32%	133,432	30%
Short term receivables	19,000	3%	19,367	4%	19,493	4%
Other	24,405	4%	19,224	4%	17,310	4%
	711,589	**100%**	**517,819**	**100%**	**441,530**	**100%**

The fair value of the property occupied by the Group is TL 106,350 (2011 - TL 45,600; 2010 - TL 45,600).

Expected contributions to post-employment benefit plans for the year ending December 31, 2012 are TL 263,062.

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

23. Retirement benefit obligations (continued)

(ii) Reserve for employment termination benefits

The movement in the reserve for employee termination benefits is as follows:

	December 31, 2012	December 31, 2011	December 31, 2010
Balance at January 1	**113,982**	**101,700**	**100,482**
Interest costs	5,311	4,739	5,949
Actuarial gains and losses	13,174	7,511	9,379
Annual charge	31,143	24,567	4,377
Paid during the year	(31,673)	(25,063)	(18,385)
Translation difference	(157)	529	(102)
Balance at December 31	**131,780**	**113,983**	**101,700**

The total of interest cost, actuarial gains and losses and annual charge for the year amounting to TL 49,628 (2011 - TL 36,817; 2010 - TL 19,705) were included in provision for retirement benefit obligations.

Under the Turkish Labour Law, the Parent and its domestic subsidiaries are required to pay termination benefits to each employee who has completed at least one year of service and whose employment is terminated without due cause, is called up for military service, dies or who retires after completing 25 years of service (20 years for women) and achieves the retirement age (63 for women and 64 for men). Since the legislation was changed on September 8, 1999, there are certain transitional provisions relating to length of service prior to retirement. The amount payable consists of one month's salary limited to a maximum of TL 2,805.04 - full (January 1, 2012 - TL 2,623.23 - full) for each year of service.

There are no agreements for pension commitments other than the legal requirement as explained above. The liability is not funded, as there is no funding requirement.

IFRS requires actuarial valuation methods to be developed to estimate the enterprise's obligation under defined benefit plans. In the consolidated financial statements, the Group reflected a liability calculated using the projected unit credit method and based upon the factors derived using their experience of personnel terminating their services and being eligible to receive employment termination benefits. The provision has been calculated by estimating the present value of the future probable obligation of the Group arising from the retirement of the employees.

Accordingly the following financial and demographical actuarial assumptions were used in the calculations of the provision:

	December 31, 2012	December 31, 2011	December 31, 2010
Discount rate (%)	4.66	4.66	4.66
The probability of retirement (%)	94.94	94.94	94.71

Additionally, the principal actuarial assumption is that the maximum liability of TL 3,129.24 – full (per personnel) for each year of service would increase in line with inflation. Thus the discount rate represents the expected real discount rate after adjusting for the effects of inflation. As the maximum liability is revised semi-annually, the maximum amount of TL 3,129.24 - full (January 1, 2012 - TL 2,805.04 -full January 1, 2011 - TL 2,427.04 - full) which is effective from January 1, 2013, has been taken into consideration in calculating the reserve for employee benefits of the Parent and its domestic subsidiaries.

Total expenses on post-employment benefits are amounting to TL 178,279 (2011 - TL 56,924; 2010 - TL 81,494).

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

24. Insurance business

	December 31, 2012	December 31, 2011	December 31, 2010
Mathematical reserve	307,419	322,680	278,586
Unearned premium reserve	448,348	358,213	280,511
Profit share reserve	253,561	243,658	250,472
Outstanding claim reserve	137,425	113,793	94,191
Insurance IBNR reserve	32,463	25,550	26,947
Total	**1,179,216**	**1,063,894**	**930,707**

Insurance liabilities and reinsurance assets

Gross insurance liabilities

Life mathematical reserves	560,980	566,338	529,058
Reserve for unearned premiums	611,926	482,852	336,776
Claims provision	281,379	255,130	195,420
Total	**1,454,285**	**1,304,320**	**1,061,254**

Recoverable from reinsurers

Reserve for unearned premiums	(163,578)	(124,639)	(56,265)
Claims provision	(111,491)	(115,787)	(74,282)
Total	**(275,069)**	**(240,426)**	**(130,547)**

Net insurance liabilities

Life mathematical reserves	560,980	566,338	529,058
Reserve for unearned premiums	448,348	358,213	280,511
Claims provision	169,888	139,343	121,138
Total	**1,179,216**	**1,063,894**	**930,707**

Income from insurance business during the years ended were as follows;

	December 31, 2012	December 31, 2011	December 31, 2010
Earned premiums, net of reinsurance	1,024,653	819,133	658,363
Claims incurred, net of reinsurance	(746,459)	(617,902)	(542,602)
Commissions, net	7,621	(9,411)	(6,275)
Other income/(expense), net	(68,405)	(34,455)	6,679
Income from insurance business	**217,410**	**157,365**	**116,165**

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

25. Other liabilities

	December 31, 2012	December 31, 2011	December 31, 2010
Credit card payables	4,289,332	3,438,982	2,983,071
Miscellaneous payables to customers	367,429	289,980	354,188
Blocked accounts	635,030	583,806	541,378
Clearing accounts	1,304,415	255,673	278,067
Premium and bonuses payable to personnel	120,070	91,226	83,414
Taxes other than on income and withholdings	177,517	154,238	145,464
Provision for unused annual vacation	104,551	92,702	80,580
Import deposit and transfer orders	176,904	125,795	50,174
Unearned income	225,233	90,607	49,354
Advances taken	28,733	19,635	27,764
Saving Deposits Insurance Fund payable	19,989	20,148	17,004
Other[(1)]	1,477,098	858,249	554,628
Total	**8,926,301**	**6,021,041**	**5,165,086**
Current	8,910,416	6,013,412	5,139,630
Non-current	15,885	7,629	25,456

(1) Clearing accounts mainly consist of payables from clearing houses related with interbank, credit card and cheque transactions. The account balance is settled on a daily basis and might fluctuate based on the number of transactions day before the reporting date.

26. Acquisitions and mergers

(i) Mergers, transfers and acquisitions in the year 2012

None.

(ii) Mergers, transfers and acquisitions in the year 2011

None

(iii) Mergers, transfers and acquisitions in the year 2010

According to the resolution of the Board of Directors of the Bank dated March 15, 2010, the Bank's shares in UniCredit Menkul Değerler A.Ş. ("UCM") included in the available for sale securities portfolio (TL 3,148 nominal, 10.73% of the capital) have been sold to Koç Finansal Hizmetler A.Ş. as of July 9, 2010 for a consideration of TL 8,548.

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

27. Share capital and share premium

The historic amount of share capital of the Bank consists of 434,705,128.40 (2011 - 434,705,128.40; 2010 - 434,705,128.40) authorized shares with a nominal value of TL 0.01 each. The Company's authorized capital amounts to TL 4,347,051 (2011 - TL 4,347,051; 2010 - TL 4,347,051). In 2008, the Bank increased its issued capital by TL 920,000 from TL 3,427,051 to TL 4,347,051 in cash.

The issued and fully paid-in share capital and share premium are as follows:

	December 31, 2012		December 31, 2011		December 31, 2010	
Shareholders	**Participation rate (%)**	**TL thousand**	**Participation rate (%)**	**TL thousand**	**Participation rate (%)**	**TL thousand**
Koç Finansal Hizmetler A.Ş.	81.80	3,555,712	81.80	3,555,712	81.80	3,555,712
Other	18.20	791,339	18.20	791,339	18.20	791,339
Historical share capital	**100.00**	**4,347,051**	**100.00**	**4,347,051**	**100.00**	**4,347,051**
Adjustment to share capital		(60,471)		(60,471)		(60,471)
Share premium		535,679		535,679		535,679
Total share capital and share premium		**4,822,259**		**4,822,259**		**4,822,259**

Transfer of the 59.47% of the shares of Yapı Kredi Faktoring A.Ş. with a nominal value of TL 9,992, 73.10% of the shares of Yapı Kredi Finansal Kiralama A.O. with a nominal value of TL 285,048 and 99.80% of the shares of Yapı Kredi Bank Azerbaijan with a nominal value of AZN 6,336,200 (full); all formerly owned by KFS have been completed as of October 31, 2007. As a part of this share exchange the Bank's capital was increased by TL 277,601 through increasing the shareholding of KFS. Besides, the differences between the nominal values of the shares issued by the Bank and the fair values of the shares transferred to the Bank amounting to TL 495,852 have been recorded in equity as "Share Premium".

28. Retained earnings and other reserves

	December 31, 2012	December 31, 2011	December 31, 2010
Statutory reserve	359,872	266,998	163,984
Translation reserves	211,065	246,166	105,131
Revaluation reserve - available-for-sale investments	1,524,900	(80,672)	191,056
Hedging reserves	(668,087)	(431,848)	(153,979)
Total other reserves	**1,427,750**	**644**	**306,192**
Retained earnings	**10,232,299**	**8,047,016**	**5,756,268**

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

28. Retained earnings and other reserves (continued)

Movements in other reserves were as follows:

	Statutory reserves	Revaluation reserves	Translation reserves	Hedging reserves	Total
At January 1, 2012	**266,998**	**(80,672)**	**246,166**	**(431,848)**	**644**
Net change in available-for-sale investments, net of tax	-	1,605,572	-	-	1,605,572
Gains / (losses) on hedges of a net	-	-	-	-	-
investment in a foreign operation	-	-	-	16,044	16,044
Losses on cash flow hedges	-	-	-	(252,283)	(252,283)
Currency translation differences	-	-	(35,101)	-	(35,101)
Transfer to statutory reserves	92,874	-	-	-	92,874
At December 31, 2012	**359,872**	**1,524,900**	**211,065**	**(668,087)**	**1,427,750**

	Statutory reserves	Revaluation reserves	Translation reserves	Hedging reserves	Total
At January 1, 2011	**163,984**	**191,056**	**105,131**	**(153,979)**	**306,192**
Net change in available-for-sale investments, net of tax	-	(271,728)	-	-	(271,728)
Gains / (losses) on hedges of a net investment in a foreign operation	-	-	-	(71,166)	(71,166)
Losses on cash flow hedges	-	-	-	(206,703)	(206,703)
Currency translation differences	-	-	141,035	-	141,035
Transfer to statutory reserves	103,014	-	-	-	103,014
At December 31, 2011	**266,998**	**(80,672)**	**246,166**	**(431,848)**	**644**

	Statutory reserves	Revaluation reserves	Translation reserves	Hedging reserves	Total
At January 1, 2010	**96,245**	**94,469**	**113,017**	**(67,738)**	**235,993**
Net change in available-for-sale investments, net of tax	-	96,587	-	-	96,587
Gains / (losses) on hedges of a net investment in a foreign operation	-	-	-	15,587	15,587
Losses on cash flow hedges	-	-	-	(101,828)	(101,828)
Currency translation differences	-	-	(7,886)	-	(7,886)
Transfer to statutory reserves	67,739	-	-	-	67,739
At December 31, 2010	**163,984**	**191,056**	**105,131**	**(153,979)**	**306,192**

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

28. Retained earnings and other reserves (continued)

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.

The Group's share in the total statutory reserves and extraordinary reserves of the Bank and the consolidated subsidiaries amounting to TL 584,397 (December 31, 2011 - TL 502,769; December 31, 2010 - TL 380,805) and TL 7,224,739 (December 31, 2011 - TL 5,425,773; December 31, 2010 - TL 3,367,865), respectively, have been presented under retained earnings.

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.

29. Net interest income

	December 31, 2012	December 31, 2011	December 31, 2010
Interest income on:			
Loans and advances:			
- to banks	128,321	103,009	74,359
- to customers	7,913,044	5,784,728	4,665,227
Trading and investment securities	1,578,235	1,517,943	1,231,836
Derivative financial instruments	159,075	289,444	330,742
Financial leases	237,891	222,355	199,400
Reserve deposits	186	505	58,431
Other	159,777	43,520	56,140
Total interest income	**10,176,529**	**7,961,504**	**6,616,135**
Interest expense on:			
Due to customers	(4,002,846)	(3,103,835)	(2,287,023)
Funds borrowed	(624,760)	(543,121)	(375,991)
Derivative financial instruments	(606,065)	(635,140)	(523,565)
Securities issued	(219,679)	(77,445)	(24,674)
Repurchase agreements	(152,565)	(261,389)	(49,775)
Deposits from banks	(33,545)	(33,469)	(43,738)
Other	(135,420)	(79,396)	(28,931)
Total interest expense	**(5,774,880)**	**(4,733,795)**	**(3,333,697)**
Net interest income	**4,401,649**	**3,227,709**	**3,282,438**

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

30. Net fee and commission income

	December 31, 2012	December 31, 2011	December 31, 2010
Fee and commission income on:			
Credit/debit cards	1,081,935	876,208	755,687
Banking services	669,025	870,386	704,264
Assets under management	168,788	225,296	272,588
Loans			
- Credit related commitments	263,673	253,169	230,171
- Loans and advances	14,787	114,203	93,015
Brokerage	46,106	58,339	59,123
Insurance products	48,862	29,032	36,926
Factoring	18,579	19,409	14,154
Other	62,414	61,043	52,504
Total fee and commission income	**2,374,169**	**2,507,085**	**2,218,432**
Fee and commission expense on:			
Credit/debit cards	(330,105)	(268,969)	(210,192)
Insurance products	(112,104)	(79,112)	(61,324)
Brokerage	(7,689)	(6,603)	(4,447)
Factoring	(3,067)	(3,094)	(2,579)
Funds borrowed	(1,781)	(1,015)	(793)
Other	(87,002)	(92,555)	(69,144)
Total fee and commission expense	**(541,748)**	**(451,348)**	**(348,479)**
Net fee and commission income	**1,832,421**	**2,055,737**	**1,869,953**

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

	December 31, 2012	December 31, 2011	December 31, 2010
Foreign exchange:			
- Translation gains less losses on trading securities	5,916	7,577	6,172
- Transaction gains less losses	342,943	154,353	258,017
Interest rate instruments	(349,795)	(90,591)	(303,634)
Equities	1,903	(4,067)	2,834
Credit derivatives	34,141	(28,330)	11,153
	35,108	**38,942**	**(25,458)**

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 296,937 (2011 - TL 47,353 gains; 2010 - TL 97,153 gains) comprise of net results on disposals of investment securities.

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

32. Other operating expenses

	December 31, 2012	December 31, 2011	December 31, 2010
Staff costs	**(1,513,019)**	**(1,349,133)**	**(1,203,106)**
Depreciation on property and equipment (Note 15)	(163,165)	(154,491)	(142,667)
Amortization of intangible assets (Note 14)	(72,936)	(60,024)	(46,089)
Depreciation and amortization	**(236,101)**	**(214,515)**	**(188,756)**
(Impairment charge) / reversal of impairment on property and equipment (Note 15)	137	98,763	52,942
(Impairment charge) / reversal of impairment on other intangible assets (Note 14)	-	-	2,770
Impairment (charge) / reversal	**137**	**98,763**	**55,712**
Rent expenses	(172,999)	(152,005)	(125,260)
Sundry taxes and duties	(86,404)	(78,954)	(100,779)
Communication expenses	(106,607)	(97,405)	(90,101)
Marketing and advertisement costs	(96,661)	(76,496)	(82,411)
Payment to Saving Deposit Insurance Fund	(79,288)	(72,972)	(64,605)
Utilities expenses	(45,120)	(39,127)	(37,116)
Audit and consultancy fees	(44,502)	(62,606)	(29,700)
Repair and maintenance expenses	(55,422)	(30,856)	(29,073)
Charities	(5,681)	(5,032)	(4,680)
Other	(417,877)	(423,284)	(424,566)
General and administrative expenses	**(1,110,561)**	**(1,038,737)**	**(988,291)**
Total	**(2,859,544)**	**(2,503,622)**	**(2,324,441)**

33. Impairment losses on loans, investment securities and credit related commitments

	December 31, 2012	December 31, 2011	December 31, 2010
Impairment losses on loans and receivables (Note 9)	(778,704)	(263,859)	(385,202)
Impairment losses on investment securities (Note 10)	1,217	(46,378)	-
Impairment losses on credit related commitments (Note 22)	(51,901)	(15,177)	(7,929)
	(829,388)	**(325,414)**	**(393,131)**

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

34. 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 year ended December 31, 2012 (2011 - none; 2010 - none).

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

	December 31, 2012	December 31, 2011	December 31, 2010
Profit attributable to equity holders of the Parent	2,290,388	2,393,762	2,229,073
Weighted average number of ordinary shares in issue (thousand) (1 Kr each)	434,705,128	434,705,128	434,705,128
Basic and diluted earnings per share (expressed in TL, full amount per thousand share)	**5.27**	**5.51**	**5.13**

35. Assets pledged and restricted

The Group has the following assets pledged as collateral:

	December 31, 2012		December 31, 2011		December 31, 2010	
	Assets	Related liability	Assets	Related liability	Assets	Related liability
Trading securities (Note 7)	43,171	-	57,144	-	116,457	32,914
Investment securities (Note 10)	8,745,061	4,982,881	10,676,414	6,098,257	5,822,846	3,186,504
Other assets pledged [1]	757,275	-	529,154	-	497,616	-
Total	9,545,507	4,982,881	11,262,712	6,098,257	6,436,919	3,219,418

(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.

Available-for-sale, held-to-maturity and trading securities whose total carrying amount is TL 5,859,057 as of December 31, 2012 (2011 - TL 7,360,908; 2010 - TL 3,890,397) 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 4,982,881 as of December 31, 2012 (2011 - TL 6,098,257; 2010 - TL 3,219,418). 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.

35. Assets pledged and restricted (continued)

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 2,929,175 (2011 - TL 3,372,650; 2010 - 2,048,906).

As of December 31, 2012, the Group's reserve deposits that are not available for unrestricted use, including those at foreign central banks, amount to TL 9,591,473 (2011 - TL 7,567,478; 2010 - TL 4,389,977). There is also held in TL 130,669 blocked foreign bank accounts.

36. 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 22).

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 December 31, 2012 the Group's commitments for unused credit card limits amounted to TL 17,900,797 (2011 - TL 13,713,682; 2010 - TL 11,727,679).

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

36. Commitments and contingent liabilities (continued)

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.

December 31, 2012 (1)	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	3,369,154	2,204,127	210,644	-	5,783,925
Letter of guarantees	9,619,433	3,350,772	6,596,747	1,053,000	20,619,952
Acceptance credits	121,325	-	-	-	121,325
Other commitments	251,864	814,862	884,460	168,013	2,119,199
Total	**13,361,776**	**6,369,761**	**7,691,851**	**1,221,013**	**28,644,401**

December 31, 2011 (1)	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	2,727,074	1,802,256	477,654	-	5,006,984
Letter of guarantees	9,164,695	3,183,647	5,468,158	998,213	18,814,713
Acceptance credits	158,915	-	-	-	158,915
Other commitments	913,922	647,746	815,288	14,941	2,391,897
Total	**12,964,606**	**5,633,649**	**6,761,100**	**1,013,154**	**26,372,509**

December 31, 2010 (1)	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	1,934,347	1,708,092	357,434	-	3,999,873
Letter of guarantees	7,816,864	2,711,202	3,620,745	798,652	14,947,463
Acceptance credits	165,797	-	-	-	165,797
Other commitments	142,724	144,453	272,644	19,599	579,420
Total	**10,059,732**	**4,563,747**	**4,250,823**	**818,251**	**19,692,553**

(1) Based on original maturities.

37. 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 and mortgages), commercial installment loans, SME loans, time and demand deposits, investment accounts, life and non-life insurance products and payroll services. Card payment systems cover the management of products and services for member merchants as well as the sales and marketing operations for a variety of customer types. Crystal, Play, Adios and Taksitçi are the other card brands providing different services for the different segments within the World brand, shopping and marketing platform of the Bank. The Bank also offers debit cards and a prepaid card named World Hediye Card.

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

37. Segment analysis (continued)

Corporate and Commercial Banking is organized into three sub-segments: 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. Other operations mainly consist of treasury management's results, operations of supporting business units, insurance operations and other unallocated transactions.

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

Starting from year 2012, the Bank discloses insurance business and domestic operations as a separate segment; therefore prior year segment reporting is updated accordingly.

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

December 31, 2012	Retail banking	Corporate banking Commercial banking	Private banking wealth management	Foreign operations	Domestic operations	Insurance	Treasury, asset liability man. & Other[1]	Eliminations[2]	Group
Segment revenue[3]	3,003,309	1,565,201	123,909	159,589	434,368	326,476	1,670,479	(280,917)	7,002,414
Segment expenses[3]	(2,283,382)	(424,478)	(67,650)	(72,696)	(173,872)	(192,764)	(964,559)	75,008	(4,104,393)
Segment result	719,927	1,140,723	56,259	86,893	260,496	133,712	705,920	(205,909)	2,898,021
Operating profit	**719,927**	**1,140,723**	**56,259**	**86,893**	**260,496**	**133,712**	**705,920**	**(205,909)**	**2,898,021**
Share of results of associates and joint ventures							17,791		17,791
Profit before tax	**719,927**	**1,140,723**	**56,259**	**86,893**	**260,496**	**133,712**	**723,711**	**(205,909)**	**2,915,812**
Income tax expense							(615,338)		(615,338)
Profit for the year[3]	**719,927**	**1,140,723**	**56,259**	**86,893**	**260,496**	**133,712**	**108,373**	**(205,909)**	**2,300,474**
December 31, 2012									
Segment assets[3]	37,651,407	30,940,250	169,225	4,947,200	7,099,443	2,023,312	49,368,667	(1,548,057)	130,651,447
Associates and joint ventures							212,393		212,393
Total assets	**37,651,407**	**30,940,250**	**169,225**	**4,947,200**	**7,099,443**	**2,023,312**	**49,581,060**	**(1,548,057)**	**130,863,840**
Segment liabilities[3]	30,189,733	25,936,583	17,125,662	4,087,128	5,601,031	1,582,239	48,131,212	(1,789,748)	130,863,840
Total liabilities	**30,189,733**	**25,936,583**	**17,125,662**	**4,087,128**	**5,601,031**	**1,582,239**	**48,131,212**	**(1,789,748)**	**130,863,840**

(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.)

37. Segment analysis (continued)

December 31, 2011	Retail banking	Corporate banking Commercial banking	Private banking wealth management	Foreign operations	Domestic operations	Insurance	Treasury, asset liability man. & Other[1]	Eliminations[2]	Group
Segment revenue[3]	2,685,663	1,325,890	128,391	166,060	418,587	270,413	879,805	(21,329)	5,853,480
Segment expenses[3]	(1,530,913)	(381,493)	(65,899)	(92,845)	(123,631)	(164,667)	(636,502)	71,614	(2,924,336)
Segment result	1,154,750	944,397	62,492	73,215	294,956	105,746	243,303	50,285	2,929,144
Operating profit	**1,154,750**	**944,397**	**62,492**	**73,215**	**294,956**	**105,746**	**243,303**	**50,285**	**2,929,144**
Share of results of associates and joint ventures							14,420		14,420
Profit before tax	**1,154,750**	**944,397**	**62,492**	**73,215**	**294,956**	**105,746**	**257,723**	**50,285**	**2,943,564**
Income tax expense							(543,127)		(543,127)
Profit for the year[3]	**1,154,750**	**944,397**	**62,492**	**73,215**	**294,956**	**105,746**	**(285,404)**	**50,285**	**2,400,437**
December 31, 2011									
Segment assets[3]	30,571,485	32,130,510	230,862	5,060,800	6,404,254	1,737,552	41,980,979	(2,263,314)	115,853,128
Associates and joint ventures							203,590		203,590
Total assets	**30,571,485**	**32,130,510**	**230,862**	**5,060,800**	**6,404,254**	**1,737,552**	**42,184,569**	**(2,263,314)**	**116,056,718**
Segment liabilities[3]	25,921,556	22,672,713	15,712,099	4,241,975	5,021,096	1,363,237	43,628,756	(2,504,714)	116,056,718
Total liabilities	**25,921,556**	**22,672,713**	**15,712,099**	**4,241,975**	**5,021,096**	**1,363,237**	**43,628,756**	**(2,504,714)**	**116,056,718**

(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.

December 31, 2010	Retail banking	Corporate banking Commercial banking	Private banking wealth management	Foreign operations	Domestic operations	Insurance	Treasury, asset liability man. & Other[1]	Eliminations[2]	Group
Segment revenue	2,791,902	1,100,140	174,694	165,119	433,130	239,296	1,085,512	(296,998)	5,692,795
Segment expenses	(1,347,294)	(547,059)	(55,792)	(53,289)	(134,822)	(149,221)	(676,340)	63,581	(2,900,236)
Segment result	1,444,608	553,081	118,902	111,830	298,308	90,075	409,172	(233,417)	2,792,559
Operating profit	**1,444,608**	**553,081**	**118,902**	**111,830**	**298,308**	**90,075**	**409,172**	**(233,417)**	**2,792,559**
Share of results of associates and joint ventures							6,326		6,326
Profit before tax	**1,444,608**	**553,081**	**118,902**	**111,830**	**298,308**	**90,075**	**415,498**	**(233,417)**	**2,798,885**
Income tax expense							(563,151)		(563,151)
Profit for the year	**1,444,608**	**553,081**	**118,902**	**111,830**	**298,308**	**90,075**	**(147,653)**	**(233,417)**	**2,235,734**
December 31, 2010									
Segment assets	26,522,965	28,966,163	347,550	4,231,558	5,110,243	1,642,465	26,167,353	(1,272,235)	91,716,062
Associates and joint ventures							94,171		94,171
Total assets	**26,522,965**	**28,966,163**	**347,550**	**4,231,558**	**5,110,243**	**1,642,465**	**26,261,524**	**(1,272,235)**	**91,810,233**
Segment liabilities	23,676,641	18,520,932	10,719,556	3,545,619	3,843,230	1,178,930	31,597,934	(1,272,609)	91,810,233
Total liabilities	**23,676,641**	**18,520,932**	**10,719,556**	**3,545,619**	**3,843,230**	**1,178,930**	**31,597,934**	**(1,272,609)**	**91,810,233**

(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.

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

38. 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:

	December 31, 2012			
	Parent	Other[1]	Key management	Total
Loans and advances to customers, net	351,774	1,271,976	41	1,623,791
Trading and investment securities	-	1,888	-	1,888
Derivative financial instruments	536	660	-	1,196
Loans and advances to banks	10,040	56,200	-	66,240
Other assets	175	778	-	953
Total assets	**362,525**	**1,331,502**	**41**	**1,694,068**
Customer deposits	4,329,281	4,516,063	63,870	8,909,214
Funds borrowed	3,884,398	3,792,780	-	7,677,178
Derivative financial instruments	25	1,704	-	1,729
Other liabilities	358	1,167	-	1,525
Deposits from banks	433,055	3,210	-	436,265
Total liabilities	**8,647,117**	**8,314,924**	**63,870**	**17,025,911**
Commitment under derivative instruments	403,945	939,966	-	1,343,911
Credit related commitments	300,627	354,550	-	655,177
Total commitments and contingent liabilities	**704,572**	**1,294,516**	**-**	**1,999,088**

	December 31, 2011			
	Parent	Other[1]	Key management	Total
Loans and advances to customers, net	422,769	778,781	176	1,201,726
Trading and investment securities	-	2,914	-	2,914
Derivative financial instruments	40	456	-	496
Loans and advances to banks	3,966	937	-	4,903
Other assets	37	760	-	797
Total assets	**426,812**	**783,848**	**176**	**1,210,836**
Customer deposits	3,945,949	3,099,751	43,437	7,089,137
Funds borrowed	1,600,747	3,265,281	-	4,866,028
Derivative financial instruments	88	3,987	-	4,075
Other liabilities	884	1,505	-	2,389
Deposits from banks	448,105	46,086	-	494,191
Total liabilities	**5,995,773**	**6,416,610**	**43,437**	**12,455,820**
Commitment under derivative instruments	216,174	97,206	-	313,380
Credit related commitments	230,099	725,823	-	955,922
Total commitments and contingent liabilities	**446,273**	**823,029**	**-**	**1,269,302**

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

38. Related party transactions (continued)

	December 31, 2010			
	Parent	Other[1]	Key management	Total
Loans and advances to customers, net	257,270	1,406,153	232	1,663,655
Trading and investment securities	-	179	-	179
Derivative financial instruments	-	11,217	-	11,217
Loans and advances to banks	981	4,676	-	5,657
Other assets	37	724	-	761
Total assets	**258,288**	**1,422,949**	**232**	**1,681,469**
Customer deposits	3,367,644	4,082,484	29,590	7,479,718
Funds borrowed	999,456	1,187,675	-	2,187,131
Derivative financial instruments	845	5,550	-	6,395
Other liabilities	1,262	1,874	-	3,136
Deposits from banks	-	3	-	3
Total liabilities	**4,369,207**	**5,277,586**	**29,590**	**9,676,383**
Commitment under derivative instruments	187,782	680,675	-	868,457
Credit related commitments	81,282	674,608	-	755,890
Total commitments and contingent liabilities	**269,064**	**1,355,283**	**-**	**1,624,347**

(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.

(ii) Transactions with related parties:

	December 31, 2012			
	Parent	Other[1]	Key management	Total
Interest income on loans and advances to customers	12,948	75,055	1	88,004
Fee and commission income	6,620	19,565	-	26,185
Interest income on financial leases	-	1,342	-	1,342
Interest income on loans and advances to banks	2	519	-	521
Other operating income	30,737	47,595	-	78,332
Total interest and fee income	**50,307**	**144,076**	**1**	**194,384**
Interest expense on deposits	(298,911)	(233,963)	(1,367)	(534,241)
Interest expense on funds borrowed	(55,135)	(99,679)	-	(154,814)
Other operating expense	(5,961)	(5,839)	-	(11,800)
Fee and commission expense	(63)	(119)	-	(182)
Total interest and fee expense	**(360,070)**	**(339,600)**	**(1,367)**	**(701,037)**

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

38. Related party transactions (continued)

	December 31, 2011			
	Parent	Other[1]	Key management	Total
Interest income on loans and advances to customers	8,152	74,184	6	82,342
Fee and commission income	4,386	13,015	-	17,401
Interest income on financial leases	-	1,350	-	1,350
Interest income on loans and advances to banks	3	130	-	133
Other operating income	35,629	22,587	-	58,216
Total interest and fee income	**48,170**	**111,266**	**6**	**159,442**
Interest expense on deposits	(227,505)	(244,562)	(813)	(472,880)
Interest expense on funds borrowed	(48,218)	(95,612)	-	(143,830)
Other operating expense	(5,843)	(5,796)	-	(11,639)
Fee and commission expense	(4,512)	(1)	-	(4,513)
Total interest and fee expense	**(286,078)**	**(345,971)**	**(813)**	**(632,862)**

	December 31, 2010			
	Parent	Other[1]	Key management	Total
Interest income on loans and advances to customers	4,388	107,362	6	111,756
Fee and commission income	4,639	13,163	-	17,802
Interest income on financial leases	-	-	-	-
Interest income on loans and advances to banks	-	92	-	92
Other operating income	554	3,516	-	4,070
Total interest and fee income	**9,581**	**124,133**	**6**	**133,720**
Interest expense on deposits	(181,918)	(138,705)	(421)	(321,044)
Interest expense on funds borrowed	(16,614)	(15,898)	-	(32,512)
Other operating expense	(4,896)	(4,500)	-	(9,396)
Fee and commission expense	(2)	-	-	(2)
Total interest and fee expense	**(203,430)**	**(159,103)**	**(421)**	**(362,954)**

(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 34,709 as of December 31, 2012 (2011 - TL 30,299; 2010 - TL 30,808).

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.

39. Assets under management

At December 31, 2012, the Group manages 40 mutual funds (2011 - 40; 2010 - 37) with total fund value of TL 5,311,403 (2011 - TL 5,198,019; 2010 - TL 6,051,473) and 16 private pension funds (2011 - 13; 2010 - 23) with total fund value of TL 3,449,886 (2011 - TL 2,286,234; 2010 - TL 2,392,653), which were established under Capital Market Board ("CMB") regulations.

40. Post balance sheet events

1. It was decided to appoint Feza Tan as Assistant General Manager responsible for Corporate and Commercial Banking, who was previously responsible for Corporate and Commercial Loans, upon resignation of Mert Güvenen from this position on February 4, 2013 and it was decided to appoint Nurgün Eyüboğlu as Assistant General Manager responsible for Corporate and Commercial Loans, who was previously General Manager of Yapı Kredi Finansal Kiralama A.Ş. with the Board of Directors' decision dated January 25, 2013.

2. By utilizing its early payment option the Bank has repaid the subordinated loan on January 9, 2013 which was obtained from UniCredit Bank Austria AG on February 22, 2012, amounting to USD 585 million. At the same date the Bank obtained a new subordinated loan from UniCredit Bank Austria AG amounting to USD 585 million with 10 years maturity and 5.5% interest rate and a repayment option by the borrower at the end of 5 years.

3. Yapı Kredi Sigorta A.Ş., one of the subsidiaries of the Bank, applied for permission of Capital Market Boards for spinning of Yapi Kredi Emeklilik A.Ş., in which Yapı Kredi Sigorta A.Ş.'s equity stake is 99.9%, by transferring its shares to a newly established joint stock company with the carrying value of these shares as at September 30, 2012.

4. On January 22, 2013, the Parent Bank issued Eurobond for non - Turkish resident; real person and corporate entities amounting to USD 500 million nominal value with a semiannually coupon at an interest rate of 4% with a maturity of January, 22 2020.

5. The Bank authorized the Head office for the issuance of TL or foreign currency bills and/or bonds up to USD 2.000 million to be sold to individuals and legal entities outside Turkey within a one year period, with different maturities and fixed or floating interest rates which are going to be determined based on the market conditions on the issuance dates.

6. The Bank attended to the hearing to perform verbal defense on February 26, 2013 as a part of the investigation process initiated by the Competition Board which is explained in Note 22 "Other provisions".

7. On February 14, 2013 Yapı Kredi Leasing Chief Executive Officer Nurgün Eyüboğlu resigned, and according to Board of Director's decision dated February 25, 2013 Fatih Torun, Assistant General Manager, has been temporarily appointed for the related position.