Yapı ve Kredi Bankası A.Ş.

Consolidated financial statements at December 31, 2013 together with independent auditor's report

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, 2013 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, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Ayşe Zeynep Deldağ
Partner, SMMM

March 7, 2014
Istanbul, Turkey

Yapı ve Kredi Bankası A.Ş.

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Yapı ve Kredi Bankası A.Ş.

Consolidated statement of financial position as at December 31, 2013

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

	Note	December 31, 2013	December 31, 2012
Assets			
Cash and balances with central banks	5	18,990,749	11,487,948
Loans and advances to banks	6	6,938,404	8,117,182
Financial assets held for trading			
- Trading securities	7	126,802	539,404
- Trading securities pledged as collateral	34	-	43,171
- Derivative financial instruments	7-8	1,585,776	416,145
Loans and advances to customers	9	106,140,581	82,776,658
Hedging derivatives	8	467,627	94,166
Investment securities			
- Available-for-sale	10	9,934,928	11,224,842
- Available-for-sale pledged as collateral	34	3,276,541	4,431,936
- Held-to-maturity	10	3,522,891	1,514,569
- Held-to-maturity pledged as collateral	34	3,366,712	4,313,125
Investment in associates and joint ventures accounted for using the equity method	11-12	457,337	212,393
Goodwill	13	1,023,528	1,023,528
Other intangible assets	14	414,190	382,040
Property and equipment	15	1,018,871	1,059,229
Deferred income tax assets	21	261,542	366,903
Other assets	16	2,287,707	2,860,601
Total assets		**159,814,186**	**130,863,840**
Liabilities			
Deposits from banks	17	5,738,024	6,242,560
Customer deposits	18	86,137,979	69,719,691
Funds borrowed	19	25,840,835	19,399,883
Debt securities in issue	20	10,565,621	5,691,409
Derivative financial instruments	8	863,633	384,481
Current income taxes payable		31,215	231,592
Deferred income tax liabilities	21	657	-
Hedging derivatives	8	386,395	904,687
Other provisions	22	645,087	682,019
Retirement benefit obligations	23	889,849	958,957
Insurance technical reserves		-	1,179,216
Other liabilities	24	9,644,728	8,926,301
Total liabilities		**140,744,023**	**114,320,796**
Equity			
Share capital and share premium	26	4,822,259	4,822,259
Other reserves	27	510,880	1,427,750
Retained earnings	27	13,735,847	10,232,299
Equity attributable to equity holders of the parent		**19,068,986**	**16,482,308**
Equity attributable to non-controlling interests		1,177	60,736
Total equity		**19,070,163**	**16,543,044**
Total liabilities and equity		**159,814,186**	**130,863,840**

The accompanying notes set out on pages 6 to 92 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, 2013
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	December 31, 2013	December 31, 2012 Restated[1]
Continuing operations			
Interest income	28	10,006,683	10,135,687
Interest expense	28	(5,503,675)	(5,802,672)
Net interest income		**4,503,008**	**4,333,015**
Fee and commission income	29	2,532,067	2,321,871
Fee and commission expense	29	(507,191)	(415,858)
Net fee and commission income		**2,024,876**	**1,906,013**
Foreign exchange gains, net		162,723	153,856
Net trading, hedging and fair value income / (loss)	30	47,626	32,748
Gains from investment securities, net	30	675,995	296,937
Other operating income		59,877	93,402
Operating income		**7,474,105**	**6,815,971**
Impairment losses on loans, investment securities and credit related commitments, net	32	(968,288)	(829,388)
Provision for retirement benefit obligations, net	23	16,611	(101,519)
Other provisions	22	(240,468)	(313,837)
Other operating expenses	31	(3,017,830)	(2,806,906)
Operating profit		**3,264,130**	**2,764,321**
Share of profit/(loss) of associates and joint ventures accounted for using the equity method	11-12	7,688	17,791
Profit before income tax from continuing operations		**3,271,818**	**2,782,112**
Income tax expense	21	(650,304)	(588,582)
Profit for the year from continuing operations		**2,621,514**	**2,193,530**
Discontinued operations			
Profit from discontinued operations, net of tax	39	1,289,022	106,944
Profit for the year		**3,910,536**	**2,300,474**
Attributable to:			
Equity holders of the parent		3,907,899	2,290,388
Non-controlling interest		2,637	10,086
		3,910,536	**2,300,474**
Basic and diluted earnings per share attributable to the equity holders of the Parent (expressed in TL per thousand share)	33	8.99	5.27
Basic and diluted earnings per share attributable to the equity holders of the Parent for continuing operations (expressed in TL per thousand share)	33	6.03	5.04

[1] Please refer to Note 39.

The accompanying notes set out on pages 6 to 92 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, 2013
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	December 31, 2013	December 31, 2012
Profit for the year		**3,910,536**	**2,300,474**
Items that are or may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		277,540	(35,101)
Net gains / (losses) on available-for-sale financial assets			
- Unrealized net gains / (losses) arising during the year, before tax		(1,554,039)	2,021,133
- Net amount reclassified to the statement of income		(449,939)	(14,510)
Net investment hedges			
- Net gains / (losses) arising on hedges recognized in other comprehensive income, before tax		(180,485)	20,055
- Net amount reclassified to the statement of income		-	-
Cash flow hedges			
- Net gains / (losses) arising on hedges recognized in other comprehensive income, before tax		310,104	(525,318)
- Net amount reclassified to the statement of income	8	247,017	209,965
Income tax effect	21	**322,568**	**(341,397)**
		(1,027,234)	**1,334,827**
Items that will never be reclassified to profit or loss			
Re-measurement gains on defined benefit liability		7,557	-
Income tax effect	21	(1,511)	-
		6,046	**-**
Other comprehensive income for the year, net of tax		**(1,021,188)**	**1,334,827**
Total comprehensive income for the year		**2,889,348**	**3,635,301**
Total comprehensive income attributable to:			
Equity holders of the parent (total)		2,887,090	3,624,620
Non-controlling interest (total)		2,258	10,681

The accompanying notes set out on pages 6 to 92 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, 2013
(Amounts expressed in thousands of TL unless otherwise indicated.)

		Attributable to equity holders of the parent						
	Note	Share capital	Share premium	Other reserves (Note 27)	Retained earnings (Note 27)	Total	Non-controlling interest	Total equity
Balance at January 1, 2012		**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	27	-	-	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**
Total comprehensive income for the year		-	-	(1,020,809)	3,907,899	2,887,090	2,258	2,889,348
Dividends paid		-	-	-	(300,000)	(300,000)	(678)	(300,678)
Transfer to statutory reserves	27	-	-	103,939	(103,939)	-	-	-
Effect of change in non-controlling interest		-	-	-	(412)	(412)	(61,139)	(61,551)
Balance at December 31, 2013		**4,286,580**	**535,679**	**510,880**	**13,735,847**	**19,068,986**	**1,177**	**19,070,163**

The accompanying notes set out on pages 6 to 92 form an integral part of these consolidated financial statements.

Yapı ve Kredi Bankası A.Ş.

Consolidated statement of cash flows
for the year ended December 31, 2013
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	December 31, 2013	December 31, 2012
Cash flows from operating activities			
Net profit		3,910,536	2,300,474
Adjustments for:			
Unrealized (gain) / loss on financial assets held for trading, net		17,348	(12,912)
Allowances for losses on loans, investment securities and credit related commitments	32	968,288	829,388
Measurement of derivative financial instruments at fair value	8	(1,582,232)	381,171
Share of profit of associates and joint ventures	11-12	(7,688)	(17,791)
Amortization of other intangible assets	31	80,960	72,936
Depreciation of property and equipment	31	165,765	163,165
(Reversal of) impairment charge on property and equipment	31	(379)	(137)
Provision for current and deferred income taxes	21	732,089	615,338
Other provisions	22	240,468	313,942
Provision / (reversal) for retirement benefit obligations	23	(16,611)	101,519
Other liabilities	24	48,218	(3,042)
Unearned commission income		1,430	134,626
Dividend income		(6,864)	(1,661)
Interest income, net	28	(4,503,008)	(4,401,649)
Interest paid		(5,492,932)	(5,610,967)
Interest received		11,111,885	8,322,475
Effect of exchange rates on financing activities		6,336,629	(1,026,154)
Others, net		568,261	752,972
Cash flows from operating profits before changes in operating assets and liabilities		**12,572,163**	**2,913,693**
Changes in operating assets and liabilities:			
Net decrease / (increase) in cash balances with central banks		(6,685,513)	(4,156,513)
Net decrease / (increase) in loans and advances to banks		446,407	(743,542)
Net decrease / (increase) in trading securities		438,425	(287,451)
Net decrease / (increase) in loans and advances to customers		(23,841,550)	(9,794,999)
Net (increase) / decrease in other assets		(960,719)	(515,219)
Net increase / (decrease) in deposits from banks		(507,223)	(1,188,631)
Net (decrease) / increase in customer deposits		16,358,204	5,047,157
Net increase / (decrease) in other liabilities and provisions		(2,774,696)	4,107,820
Income taxes paid		(505,388)	(652,887)
Net cash from / (used in) operating activities		**(5,459,890)**	**(5,270,572)**
Cash flows from investing activities			
(Purchase of) property and equipment	15	(173,721)	(159,435)
Net book value of property and equipment disposed	15	24,379	4,726
(Purchase of) intangible assets, net	14	(131,329)	(150,343)
(Purchase of) held-to-maturity securities	10	(504,486)	(50,325)
Redemption or sale of held-to-maturity securities	10	126,415	946,471
(Purchase of) available-for-sale securities	10	(11,273,077)	(3,768,824)
Sale or redemption of available-for-sale securities	10	11,639,522	3,609,598
Disposal of discontinued operation, net of cash disposed of	39	1,358,266	-
Dividends received		6,864	1,661
Others, net		-	7,782
Net (used in) investing activities		**1,072,833**	**441,311**
Cash flows from financing activities			
(Repayments of) borrowed funds and debt securities		(8,183,185)	(7,518,216)
Proceeds from borrowed funds and debt securities		11,659,816	11,650,729
Dividend paid		(300,678)	(3,066)
Net cash from / (used in) financing activities		**3,175,953**	**4,129,447**
Net increase / (decrease) in cash and cash equivalents		**(1,211,104)**	**(699,814)**
Effects of foreign exchange rate changes on cash and cash equivalents		836,133	(233,440)
Cash and cash equivalents at beginning of year	5	11,014,535	11,947,789
Cash and cash equivalents at end of year	**5**	**10,639,564**	**11,014,535**

The accompanying notes set out on pages 6 to 92 form an integral part of these consolidated financial statements.

1. General information

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

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

The Bank’s shares have been traded on the Istanbul Stock Exchange (“ISE”) since 1987. As of December 31, 2013, 18.20% of the shares of the Bank are publicly traded (2012 - 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, 2013, the Group has 16,680 employees (2012 - 17,459 employees). The Bank has 948 branches operating in Turkey and 1 branch in overseas (2012 - 927 branches operating in Turkey, 1 branch in overseas) and 15,683 employees (2012 - 14,733 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, 2013 have been approved for issue by the Board of Directors on March 7, 2014.

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 held for trading and financial assets designated as hedged items in qualifying fair value hedge relationships, which have all been measured at fair value.

The carrying values of recognized assets 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 Turkish Lira in accordance with the Banking Act No. 5411 ("Banking Act"), which is effective from November 1, 2005, the Turkish Commercial Code ("TCC"), the Turkish Tax Legislation, the "Regulation on the Principles and Procedures Regarding Banks' Accounting Applications and Safeguarding of Documents" published in the Official Gazette No. 26333 dated November 1, 2006 by the Banking Regulation and Supervision Agency ("BRSA") which refers to "Turkish Accounting Standards" ("TAS") and "Turkish Financial Reporting Standards ("TFRS") issued by the Public Oversight Accounting and Auditing Standards Authority ("POA") and other decrees, notes and explanations related to the accounting and financial reporting principles (all "Turkish Accounting Standards" or "TAS") published by the BRSA. 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, 2013 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 amendments to standards, including any consequential amendments to other standards summarized below. The effects of these standards and related amendments on the Group's financial position and performance have been disclosed in the related notes. These standards did not have material effect on the Group's financial position.

The new standards and amendments which are effective for periods beginning January 1, 2013 are as follows:

a) IFRS 10 Consolidated Financial Statements (2011) and IFRS 11 Joint Arrangements
b) IFRS 12 Disclosure of Interests in Other Entities
c) IFRS 13 Fair Value Measurement
d) Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)
e) Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)
f) IAS 19 Employee Benefits (2011)

The nature and the effects of the changes are explained below.

a) Subsidiaries, including structured entities

As a result of IFRS 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates other entities. IFRS 10 (2011) introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect those returns.

In accordance with the transitional provisions of IFRS 10 (2011), the Group reassessed its control conclusions as of 1 January 2013.

2. Summary of significant accounting policies (continued)

IFRS 11 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. This standard did not have an impact on the financial position or performance of the Group.

The application of IFRS 10 (2011) and IFRS 11 did not have any impact on the Group's financial statements.

b) Interests in other entities

As a result of IFRS 12, additional disclosures should be made by the Group. However, the Group has not any involvement in unconsolidated structured entities, has not given any financial support to its structured entity, does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate and does not have any material non-controlling interests.

c) Fair value measurement

In accordance with the transitional provisions of IFRS 13, the Group has applied the new definition of fair value. The change had no significant impact on the measurements of the Group's assets and liabilities.

d) Offsetting financial assets and financial liabilities

As a result of the amendments to IFRS 7, additional disclosures should be made by the Group. However, the Group does not have any financial assets and liabilities that are offset in the financial statements and subject to an enforceable master netting agreement or similar agreements.

e) Presentation of items of other comprehensive income

As a result of the amendments to IAS 1, the Group has modified the presentation of items of other comprehensive income ("OCI") in its statement of comprehensive income, to present items that would be reclassified to profit or loss in the future separately from those that would never be reclassified to profit or loss. Comparative information has been re-presented on the same basis.

f) Post-employment defined benefit plans

As a result of IAS 19 (2011), the Group started to recognize all actuarial gains and losses immediately in other comprehensive income in accordance with the change in IAS 19 (2011).

The Group recognized all actuarial gains and losses in profit or loss in previous years. Since the effect of this change has an immaterial effect on the previous year's consolidated financial statements, the Group did not restate its consolidated financial statements as at and for the year ended 31 December 2012.

Standards issued but not yet effective and not early adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2013, and have not been applied in preparing these consolidated financial statements. Those that may be relevant to the Group are set out below. The Group does not plan to adopt these standards early. None of these will have a material affect on the consolidated financial information of the Group, with the exception of:

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

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. IFRS 9 (2013) introduces new requirements for hedge accounting. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets.

2. Summary of significant accounting policies (continued)

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

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

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

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

The mandatory effective date of IFRS 9 is not specified but will be determined when the outstanding phases are finalised. However, early application of IFRS 9 is permitted.

The Group has started the process of evaluating the potential effect of this standard but is awaiting finalisation of the limited amendments before the evaluation can be completed. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements.

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

The amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after January 1, 2014 and interim periods within those annual periods. Early application is permitted. The Group is still evaluating the potential effect of the adoption of the amendments to IAS 32.

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

As a consequential amendment to IFRS 13 Fair Value Measurement, some of the disclosure requirements in IAS 36 Impairment of Assets regarding measurement of the recoverable amount of impaired assets has been modified. The amendments required additional disclosures about the measurement of impaired assets (or a group of assets) with a recoverable amount based on fair value less costs of disposal. The amendments are to be applied retrospectively for annual periods beginning on or after 1 January 2014. Earlier application is permitted for periods when the entity has already applied IFRS 13. The Group does not expect that this amendment will have any impact on the financial position or performance of the Group.

2. Summary of significant accounting policies (continued)

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

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

B. Consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries for the year ended December 31, 2013. The financial statements of the Bank's subsidiaries (including the structured entity that the Bank consolidates) are prepared for the same reporting period as the Bank, using consistent accounting policies.

(a) Subsidiaries

Subsidiaries including structured entity are investees controlled by the Group. The Group controls an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain and loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

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

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

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in the preparation of the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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

2. Summary of significant accounting policies (continued)

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate. The supervisory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other ratios. The carrying amount of banking subsidiaries' assets and liabilities are TL 6,080,738 and TL 4,986,099 respectively (2012: TL 4,903,293 and TL 4,087,059 respectively).

The list of principal subsidiaries at December 31, 2013, 2012 are as follows:

Name of subsidiary	Country of incorporation	Nature of business
Yapı Kredi Finansal Kiralama A.O.	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
Tasfiye Halinde Yapı Kredi B Tipi Yatırım Ortaklığı A.Ş.[2]	Turkey	Portfolio management
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	Structured entity ("SE")

	2013		2012	
Name of subsidiary	Control rates (%)	Effective rates (%)	Control rates (%)	Effective rates (%)
Yapı Kredi Finansal Kiralama A.O. [2] ("YKL")	99.99	99.99	99.98	99.98
Yapı Kredi Faktoring A.Ş.	99.96	99.96	99.96	99.96
Yapı Kredi Portföy Yönetimi A.Ş.	99.97	99.95	99.97	99.95
Yapı Kredi Yatırım Menkul Değerler A.Ş.	99.98	99.98	99.98	99.98
Tasfiye Halinde Yapı Kredi B Tipi Yatırım Ortaklığı A.Ş. [3] ("YKYO")	95.36	95.36	56.07	56.06
Yapı Kredi Bank Nederland N.V.	100.00	100.00	100.00	100.00
Stiching Custody Services YKB	100.00	100.00	100.00	100.00
Yapı Kredi Bank Moscow	100.00	100.00	100.00	100.00
Yapı Kredi Holding B.V.	100.00	100.00	100.00	100.00
Yapı Kredi Azerbaijan	100.00	100.00	100.00	100.00
Yapı Kredi Invest LLC	100.00	100.00	100.00	100.00
Enternasyonel	99.99	99.96	99.99	99.96
Agro-san	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
Yapı Kredi Diversified Payment Rights Finance Co.[1]	-	-	-	-

(1) Yapı Kredi Diversified Payment Rights Finance Company is a structured 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) YKL 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 YKL 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 YKL increased to 99.98% as of December 31, 2012.

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

(b) Associates

Associates are all entities over which the Group has significant influence but not control. 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.

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

2. Summary of significant accounting policies (continued)

The Group's share of its associates' post-acquisition profits or losses is recognized in the statement of income, 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 associates 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, 2013 and 2012 are as follows:

				2013		2012	
Name of associate	**Country of incorporation**	**Nature of business**	**Original currency**	**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
Allianz Yaşam ve Emeklilik A.Ş.[1]	Turkey	Life insurance	TL	20.00	20.00	-	-

[1]Please refer to Note 39.

(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 statement of income, 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.

The details of the joint venture at December 31, 2013 and 2012 are as follows:

				2013		2012	
Name of joint venture	**Country of incorporation**	**Nature of business**	**Original currency**	**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

(d) Fund management

The Group manages and administers open-ended mutual funds. Determining whether the Group controls such as a fund usually focuses on the assessment of the aggregate economic interests of the Group in the fund (comprising any carried interests and expected management fees) and the investors' rights to remove the fund manager. As a result, after evaluating the aggregate economic interests in funds and the rights to remove the fund manager, the Group has concluded that it acts as agent for the investors in all cases, and therefore has not consolidated these funds. Information about the Group's fund management is set out in Note 38.

2. Summary of significant accounting policies (continued)

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,

(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.

2. Summary of significant accounting policies (continued)

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 37).

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 statement of income. 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 31).

(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:

		2013		2012
	Employer (%)	**Employee (%)**	**Employer (%)**	**Employee (%)**
Retirement benefit contributions	11	9	12	9
Medical benefit contributions	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 stem from the re-measurements of defined benefit obligation are recognized immediately in the other comprehensive income.

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).

AD. 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.

2. Summary of significant accounting policies (continued)

AE. 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 33.

AF. 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.

AG. Comparatives

Comparative figures are reclassified, where necessary, to conform to changes in presentation of the December 31, 2013 consolidated financial statements. Please refer to Note 39 for detailed explanation.

3. Critical accounting estimates and judgements in applying accounting policies

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. These disclosures supplement the commentary significant accounting policies (Note 2) and financial risk management (Note 4).

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

Financial asset and liability classification: The Group's accounting policies provide scope for assets and liabilities to be designated on inception into different accounting categories in certain circumstances:

In classifying financial assets and liabilities as "trading", "held-to-maturity" and "available-for-sale assets" the Group has determined that it meets the descriptions set out in accounting policy Note 2F and Note 2G.

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.

The key assumptions concerning the future and other key sources of estimation uncertainty that may be a significant risk of resulting in 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.

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

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.

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 by TL 131,635 (2012 - TL 96,186) 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.

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. However, the effect of the changes in assumptions about these factors is insignificant as at December 31, 2013.

Tax legislation

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

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.

With specific reference to future cash flow projections used in the impairment test of goodwill, it should be noted that the parameters and information used are significantly influenced by the macro-economic market situation and realization of business plans, which may change in unpredictably.

4. Financial risk management

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

A. Credit risk

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

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

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

The Group manages credit risk through the following implementations:

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

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

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

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

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

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

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

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

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

4. Financial risk management (continued)

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

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 9 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 2012.

The Bank's rating tool concentration by risk classes as of December 31, 2013 and 2012 is as follows:

		Concentration level (%)	
	Rating class (1)	**2013**	**2012**
Above average	1-4	41.3	43.7
Average	5+ - 6	51.7	49.4
Below average	7+ - 9	7.0	6.9

(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.

Fourth generation of application scorecard has also been developed to evaluate SME clients in 2013 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, 2013 and 2012:

	December 31, 2013		December 31, 2012	
Group's rating	**% of Loans and advances**	**Provision coverage %**	**% of Loans and advances**	**Provision coverage %**
1. Performing loans	94.13	0.70	93.44	0.85
2. Watch-listed	2.33	4.09	3.28	4.42
3. Legal follow-up	3.53	65.33	3.28	64.20
	100.00	**3.06**	**100.00**	**3.05**

(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, 2013				
	Past due up to 30 days	**Past due between 30 - 60 days**	**Past due between 60 - 90 days**	**Total**	**December 31, 2012 Total**
Corporate	499,191	298,587	640,690	1,438,468	2,225,001
Consumer	515,974	480,553	211,511	1,208,038	1,218,033
Credit cards	580,765	141,600	88,885	811,250	853,704
Leasing	7,953	1,985	3,602	13,540	23,534
Factoring	299,650	33,949	9,710	343,309	547,667
	1,903,533	**956,674**	**954,398**	**3,814,605**	**4,867,939**

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, 2013, the total amount of restructured loans included in legal follow up during the year is TL 297,541 (2012 - TL 205,199).

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, 2013	December 31, 2012
Credit risk exposures relating to assets on-statement of financial position:		
Loans and advances to banks	6,938,404	8,117,182
Loans and advances to customers		
- Credit cards	18,830,418	14,468,597
- Consumer	18,818,524	15,565,003
- Corporate	62,400,811	48,032,378
- Leasing	3,957,517	3,078,497
- Factoring	2,133,311	1,632,183
Financial assets held for trading:		
- Securities	126,802	582,575
- Derivative financial instruments	1,585,776	416,145
Hedging derivatives	467,627	94,166
Investment securities		
- Available-for-sale	13,211,469	15,656,778
- Held-to-maturity	6,889,603	5,827,694
Other assets	2,029,133	2,609,156
Credit risk exposures relating to off-statement of financial position items:		
Credit related commitments	34,357,780	26,403,877
Other	3,730,136	2,240,524

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 requests additional collateral in accordance with the underlying agreement when necessary.

(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	6,938,404	-	-	-	-	-	-	6,938,404
Loans and advances to customers	2,903,616	22,311,351	590,357	5,164,835	997,751	36,523,724	37,648,947	106,140,581
Trading securities - debt securities	51,366	-	-	-	54,967	-	-	106,333
Derivative financial instruments	1,004,038	372,501	-	-	-	20,585	188,652	1,585,776
Hedging derivatives	467,627	-	-	-	-	-	-	467,627
Investment securities - debt securities	2,085,097	10,889	-	984	17,903,784	60,439	-	20,061,193
Other assets	1,165,548	-	-	-	7,609	956,825	157,725	2,287,707
As of December 31, 2013	**14,615,696**	**22,694,741**	**590,357**	**5,165,819**	**18,964,111**	**37,561,573**	**37,995,324**	**137,587,621**
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**

	Financial institutions	Manufacturing	Real estate	Wholesale and retail trade	Public sector	Other industries	Individuals	Total
Letter of guarantees	1,434,264	10,084,124	558,843	1,607,180	-	13,961,159	1,729	**27,647,299**
Letter of credits	274,641	3,798,651	5,379	1,696,330	-	935,480	-	**6,710,481**
Acceptance credits	2,847	83,602	-	-	-	32,237	-	**118,686**
Other commitments and contingencies	77,994	2,597,436	-	195,697	-	740,323	-	**3,611,450**
As of December 31, 2013	**1,789,746**	**16,563,813**	**564,222**	**3,499,207**	**-**	**15,669,199**	**1,729**	**38,087,916**
As of December 31, 2012	**2,442,455**	**12,943,219**	**519,753**	**2,213,004**	**-**	**10,525,961**	**9**	**28,644,401**

(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	18,777,186	-	62,756	150,807	18,990,749
Loans and advances to banks	4,318,861	30,359	1,097,754	1,491,430	6,938,404
Financial assets held for trading					
-Trading securities	126,429	-	373	-	126,802
-Derivative financial instruments	198,176	-	1,332,793	54,807	1,585,776
Hedging derivatives	-	-	467,627	-	467,627
Loans and advances to customers, net					
- Credit cards	18,782,909	-	-	47,509	18,830,418
- Consumer	18,594,756	-	-	223,768	18,818,524
- Corporate	58,468,235	152,287	1,964,956	1,815,333	62,400,811
- Leasing	3,844,169	-	13,635	99,713	3,957,517
- Factoring	2,133,311	-	-	-	2,133,311
Investment securities					
- Available-for-sale	11,647,703	-	1,187,728	376,038	13,211,469
- Held-to-maturity	6,612,753	-	242,684	34,166	6,889,603
Investment in associates and joint ventures	203,875	-	-	253,462	457,337
Goodwill	1,023,528	-	-	-	1,023,528
Other intangible assets	401,233	-	94	12,863	414,190
Property and equipment	972,653	-	1,935	44,283	1,018,871
Deferred income tax assets	257,054	-	4,287	201	261,542
Other assets	2,178,765	13,483	58,720	36,739	2,287,707
As of December 31, 2013	**148,541,596**	**196,129**	**6,435,342**	**4,641,119**	**159,814,186**
As of December 31, 2012	**123,037,311**	**66,802**	**4,460,845**	**3,298,882**	**130,863,840**
Letter of guarantees	25,004,146	591,889	691,744	1,359,520	27,647,299
Letter of credits	3,801,636	6,840	1,200,048	1,701,957	6,710,481
Acceptance credits	118,684	-	-	2	118,686
Other commitments and contingencies	3,548,764	-	-	62,686	3,611,450
As of December 31, 2013	**32,473,230**	**598,729**	**1,891,792**	**3,124,165**	**38,087,916**
As of December 31, 2012	**24,310,501**	**676,652**	**1,422,423**	**2,234,825**	**28,644,401**

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 3,049 in 2013.

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 (2013)**		
	Average	**High**	**Low**
Foreign exchange risk	525	1,551	4,555
Interest rate risk	91,042	206,375	48,520
Equities risk	3	849	-
Total VaR (*)	**255,199**	**344,712**	**175,286**

	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**

(*) 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 (2013)**		
	Average	**High**	**Low**
Foreign exchange risk	530	4,554	47
Interest rate risk of trading securities	2,925	6,956	749
Equities risk	8	849	-
Total VaR	**3,049**	**6,538**	**808**

	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**

(c) Non-trading portfolio VaR by risk type	**12 months to reporting date (2013)**		
	Average	**High**	**Low**
Foreign exchange risk	-	-	-
Interest rate risk of investment securities	91,498	206,127	47,888
Equities risk	-	-	-
Total VaR	**255,163**	**343,650**	**178,033**

	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**

(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, 2013

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

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

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

4. Financial risk management (continued)

December 31, 2012

				Foreign currency
	USD	**EUR**	**Other**	**Total**
Assets				
Cash and balances with central banks	6,247,407	2,137,276	1,482,453	9,867,136
Loans and advances to banks	1,374,878	1,388,018	591,718	3,354,614
Financial assets held for trading				
- Trading securities	113,425	5,031	-	118,456
- Derivative financial instruments	92,250	37,551	1,005	130,806
Loans and advances to customers (1)	18,284,586	10,523,252	1,041,763	29,849,601
Hedging derivatives	-	-	-	-
Investment securities				
- Available-for-sale	7,122,856	441,374	36,043	7,600,273
- Held-to-maturity	2,281,950	227,237	-	2,509,187
Investment in associates and joint ventures	-	-	193,934	193,934
Property and equipment	-	1,376	32,976	34,352
Deferred income tax assets	-	-	164	164
Other assets	796,256	253,899	159,521	1,209,676
Total assets	**36,313,608**	**15,015,014**	**3,539,577**	**54,868,199**
Liabilities				
Deposits from banks	3,191,749	766,981	92,004	4,050,734
Customer deposits	17,455,225	9,738,974	1,990,046	29,184,245
Funds borrowed	7,258,638	9,049,136	96,732	16,404,506
Debt securities in issue	3,480,239	791,762	-	4,272,001
Derivative financial instruments	86,457	9,844	1,203	97,504
Current income taxes payable	-	1,738	145	1,883
Deferred income tax liabilities	-	-	-	-
Hedging derivatives	391,198	101,488	-	492,686
Other provisions	443	128	90	661
Retirement benefit obligations	-	9,576	-	9,576
Insurance technical reserves	237,085	58,970	5	296,060
Other liabilities	706,236	1,070,586	48,485	1,825,307
Total liabilities	**32,807,270**	**21,599,183**	**2,228,710**	**56,635,163**
Net balance sheet position	**3,506,338**	**(6,584,169)**	**1,310,867**	**(1,766,964)**
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**	**185,381**	**1,450,438**

(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)

At December 31, 2013, assets and liabilities denominated in foreign currency were translated into TL using a foreign exchange rate of TL 2.1343 = USD 1, and TL 2.9365 = EUR 1 (2012 - TL 1.7380 = USD 1, and TL 2.2929 = EUR1).

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.

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, 2013	December 31,2012
Change in currency exchange rate	**Profit/loss effect [1]**	**Profit/loss effect [1]**
(+) 15%	(67.460)	(27,818)
(-) 15%	67.460	27,818

(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, 2013 and 2012. 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, 2013	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with central banks	-	-	-	-	18,990,749	18,990,749
Loans and advances to banks	5,100,010	160,720	268,580	797	1,408,297	6,938,404
Financial assets held for trading						
- Trading securities	9,585	22,274	8,210	16,094	70,639	126,802
- Derivative financial instruments	889,962	625,519	70,295	-	-	1,585,776
Loans and advances to customers	47,497,611	28,727,621	21,018,579	6,922,603	1,974,167	106,140,581
Hedging derivatives	180,363	287,264	-	-	-	467,627
Investment securities						
- Available-for-sale	3,292,920	3,020,550	3,394,855	3,376,746	126,398	13,211,469
- Held-to-maturity	2,286,497	1,379,856	213,437	3,009,813	-	6,889,603
Investment in associates and joint ventures	-	-	-	-	457,337	457,337
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	-	-	414,190	414,190
Property and equipment	-	-	-	-	1,018,871	1,018,871
Deferred income tax assets	-	-	-	-	261,542	261,542
Other assets	-	-	-	-	2,287,707	2,287,707
Total assets	**59,256,948**	**34,223,804**	**24,973,956**	**13,326,053**	**28,033,425**	**159,814,186**
Liabilities						
Deposits from banks	4,627,196	436,095	134,031	-	540,702	5,738,024
Customer deposits	64,749,893	6,163,400	964,820	333,389	13,926,477	86,137,979
Funds borrowed	16,208,274	6,220,898	2,882,399	529,264	-	25,840,835
Debt securities in issue	3,325,120	1,883,459	2,129,331	3,227,711	-	10,565,621
Derivative financial instruments	379,523	446,806	34,303	3,001	-	863,633
Current income taxes payable	-	-	-	-	31,215	31,215
Deferred income tax liabilities	-	-	-	-	657	657
Hedging derivatives	293,333	93,062	-	-	-	386,395
Other provisions	-	-	-	-	645,087	645,087
Retirement benefit obligations	-	-	-	-	889,849	889,849
Other liabilities	61,762	7,715	715	2	9,574,534	9,644,728
Total liabilities	**89,645,101**	**15,251,435**	**6,145,599**	**4,093,367**	**25,608,521**	**140,744,023**
Net interest repricing gap (on balance)	**(30,388,153)**	**18,972,369**	**18,828,357**	**9,232,686**	**2,424,904**	**19,070,163**
Off-balance sheet derivative instruments net notional position	15,720,416	424,881	(14,324,820)	(1,247,341)	-	573,136
Net interest repricing gap (net position)	**(14,667,737)**	**19,397,250**	**4,503,537**	**7,985,345**	**2,424,904**	**19,643,299**

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

4. Financial risk management (continued)

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)

Interest rate sensitivity analysis:

The sensitivity analysis regarding the effect of interest rate fluctuations on the financial statements is performed for all interest earning assets and interest bearing liabilities.

Interest rate risk resulting from banking books comprise of repricing risk yield curve risk, and basis risk.

Interest rate risk is measured and monitored monthly by market risk management. Duration analysis, gap analysis, basis points value analysis, scenario analysis and simulation of net interest income are performed and reported monthly to Asset Liability Management function of the Executive Committee.

Interest sensitivity is measured most appropriately using the duration distribution map for every type of product. Investment decisions are done by taking into account the interest rate measurements. The maturity and interest risk for products with uncertain maturities is effectively measured using the behavioral analysis.

Economic value differences resulting from interest rate fluctuations of the Bank as of December 31, 2013 and 2012 are presented in the table below.

	December 31, 2013		
Currency	**Applied shock (+/- x basis points)**	**Gains/Losses**	**Gains/Equity-Losses/Equity**
TRY	(+)500 bp	(1,811,334)	(8.14)%
TRY	(-)400 bp	1,766,615	7.94%
EUR	(+)200 bp	(76,652)	(0.34)%
EUR	(-)200 bp	90,661	0.41%
USD	(+)200 bp	196,480	0.88%
USD	(-)200 bp	(142,278)	(0.64)%
Total (for negative shock)		**1,714,998**	**7.77%**
Total (for positive shock)		**(1,691,507)**	**(7.66)%**

	December 31, 2012		
Currency	**Applied shock (+/- x basis points)**	**Gains/Losses**	**Gains/Equity-Losses/Equity**
TRY	(+)500 bp	(1,128,662)	(5.82)%
TRY	(-)400 bp	1,133,925	5.85%
EURO	(+)200 bp	16,022	0.08%
EURO	(-)200 bp	(2,965)	(0.02)%
USD	(+)200 bp	(846,215)	(4.36)%
USD	(-)200 bp	1,209,228	6.23%
Total (for negative shock)		**2,340,188**	**12.06%**
Total (for positive shock)		**(1,958,855)**	**(10.10)%**

(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, 2013 and 2012 based on yearly contractual rates.

	December 31, 2013			December 31, 2012		
	USD (%)	EUR (%)	TL (%)	USD (%)	EUR (%)	TL (%)
Assets						
Cash and balances with central banks	-	0.01	-	-	0.15	-
Loans and advances to banks	1.22	2.43	8.18	2.11	0.77	7.04
Financial assets held for trading	4.59	2.34	9.07	3.80	0.88	6.81
Investment securities						
- Available-for-sale	6.75	5.41	9.36	7.05	4.49	9.20
- Held-to-maturity	5.47	4.26	8.93	5.51	4.68	8.97
Loans and advances to customers	5.01	5.04	12.33	5.29	5.40	12.47
Liabilities						
Deposits from banks	2.03	1.38	8.02	1.50	2.68	6.10
Customer deposits	2.86	2.76	9.05	2.96	2.99	8.33
Debt securities in issue	3.88	1.50	7.89	4.88	2.81	10.40
Funds borrowed	3.40	2.05	8.90	3.80	2.39	8.29

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, 2013[(1)]

	Demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Liabilities						
Deposits from banks	540,702	3,635,529	1,122,651	462,223	-	5,761,105
Customer deposits	13,926,475	67,521,978	6,374,236	1,200,320	421,669	89,444,678
Funds borrowed	-	4,417,835	9,974,609	7,713,916	7,090,006	29,196,366
Debt securities in issue	-	1,119,727	3,196,770	5,284,929	1,451,848	11,053,274
Total liabilities	**14,467,177**	**76,695,069**	**20,668,266**	**14,661,388**	**8,963,523**	**135,455,423**

(1) Maturities of non-cash loans are presented in Note 35.

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**

(1) Maturities of non-cash loans are presented in Note 35.

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

4. Financial risk management (continued)

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, 2013	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	17,128,322	10,162,730	15,104,493	3,581,861	-	45,977,406
- Inflow	17,531,762	10,253,258	15,423,001	3,001,496	-	46,209,517
Interest rate derivatives:						
- Outflow	67,489	3,637	1,486,929	4,689,859	875,896	7,123,810
- Inflow	71,149	4,739	1,485,237	4,902,707	896,372	7,360,204
Derivatives held for hedging:						
Interest rate derivatives:						
- Outflow	44,610	1,335,612	2,393,605	13,535,133	334,615	17,643,575
- Inflow	20,158	1,448,718	2,538,347	13,644,678	424,882	18,076,783
Total cash outflow	**17,240,421**	**11,501,979**	**18,985,027**	**21,806,853**	**1,210,511**	**70,744,791**
Total cash inflow	**17,623,069**	**11,706,715**	**19,446,585**	**21,548,881**	**1,321,254**	**71,646,504**

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**

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

4. Financial risk management (continued)

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 noncompliance 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 2013 and 2012. As of December 31, 2013, the total amount subject to operational risk is calculated as TL 11.382.718 (2012 - TL 10,677,893) and the amount of the related capital requirement is TL 910.617 (2012 - TL 854,231).

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%.

The Group's regulatory capital adequacy position on a consolidated basis at December 31, 2013 and 2012 was as follows:

	December 31, 2013	**December 31, 2012**
Tier I capital	17,470,107	13,998,517
Tier II capital	6,431,274	6,013,921
Deductions	(759,414)	(412,372)
Total regulatory capital	23,141,967	19,600,066
Risk-weighted assets (including market and operational risk)	151,077,538	129,018,000
Capital adequacy ratio (%)	**15.32**	**15.19**

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

4. Financial risk management (continued)

F. Fair value of financial instruments

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

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

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

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

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

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

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

	December31, 2013		December31, 2012	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**
Financial assets:				
Loans and advances to banks	6,938,404	6,947,221	8,117,182	8,246,406
Investment securities (held-to-maturity)	6,889,603	6,888,193	5,827,694	6,192,442
Loans and advances to customers(1)	104,162,380	105,328,997	80,796,313	82,400,464
Financial liabilities:				
Deposits from banks	5,738,024	5,743,260	6,242,560	6,251,349
Customer deposits	86,137,979	86,693,115	69,719,691	70,088,772
Funds borrowed	25,840,835	25,931,947	19,399,883	19,520,369
Debt securities in issue	10,565,621	10,599,196	5,691,409	5,757,506

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

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

4. Financial risk management (continued)

Loans and advances to banks

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

Loans and advances to customers

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

Investment securities

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

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

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

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

Derivatives

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

Financial investments - available-for-sale

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

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

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

4. Financial risk management (continued)

Other trading assets

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

Other liabilities designated at fair value through profit or loss

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

Determination of fair value and fair value hierarchy:

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

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

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

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

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

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

Assets and liabilities measured at fair value

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

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

4. Financial risk management (continued)

December 31, 2012	Level 1	Level 2	Level 3	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	-	-	-	
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	-	-	-	-
Total assets	**14,558,908**	**2,165,799**	**-**	**16,724,707**
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**

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

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

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

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, 2013	December 31, 2012
Investment securities held in custody	13,640,836	12,277,545
Cheques received for collection	9,904,999	9,467,529
Commercial notes received for collection	3,172,382	2,791,267
	26,718,217	**24,536,341**

(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

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, 2013	December 31, 2012
Cash and cash equivalents	1,806,716	1,546,923
Balances with central banks	17,184,033	9,941,025
Reserve deposits with central banks (-)	(15,001,720)	(7,861,401)
Loans and advances to banks (with original maturity less than 90 days) (+)	6,492,230	7,216,199
Other cash equivalents (+)	158,305	171,789
Total	**10,639,564**	**11,014,535**

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

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

Foreign reserve requirements:

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

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

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

6. Loans and advances to banks

		December 31, 2013			December 31, 2012	
	Domestic	**Foreign**	**Total**	**Domestic**	**Foreign**	**Total**
TL:						
Nostro / demand deposits	1,868	12,867	14,735	71,941	5	71,946
Time deposits	473,085	28,271	501,356	2,028,621	-	2,028,621
Interbank money market and reverse repo	2,879,994	-	2,879,994	2,662,001	-	2,662,001
	3,354,947	**41,138**	**3,396,085**	**4,762,563**	**5**	**4,762,568**
Foreign currency:						
Nostro/ demand deposits	12,647	1,389,361	1,402,008	16,970	1,653,104	1,670,074
Time deposits	902,814	1,189,044	2,091,858	840,217	733,089	1,573,306
Interbank money market and reverse repo	48,453	-	48,453	111,234	-	111,234
	963,914	**2,578,405**	**3,542,319**	**968,421**	**2,386,193**	**3,354,614**
	4,318,861	**2,619,543**	**6,938,404**	**5,730,984**	**2,386,198**	**8,117,182**

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

7. Financial assets held for trading

	December 31, 2013	December 31, 2012
Government bonds and treasury bills	54,967	493,996
Government bonds and treasury bills sold under repurchase agreements	-	-
Other debt securities	51,366	53,801
Total debt securities	**106,333**	**547,797**
Equity securities - listed	20,469	34,778
Total equity securities	**20,469**	**34,778**
Total securities	**126,802**	**582,575**
Derivative financial instruments	1,585,776	416,145
Total financial assets held for trading	**1,712,578**	**998,720**

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, 2013, 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, 2013

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

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

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

8. Derivative financial instruments and hedging activities (continued)

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.

Fair value hedges

Starting from March 1, 2011, the Group has hedged the possible fair value effects of changes in market interest rates on part of its fixed interest TL mortgage and car loan portfolios and fair value effects of changes in foreign exchange rates on part of its foreign currency denominated deposits using cross-currency interest rate swaps. The net carrying value of hedging derivatives at December 31, 2013 is an asset amounting to TL 307,375 (2012 - asset TL 3,763). At December 31, 2013, the marked to market difference of the hedging derivatives since the inception date of the hedge relationship is TL 195,179 loss (2012 - TL 158,581 gain), the fair value difference of the hedged items is liability TL 5,113 (2012 – asset TL 148,635) and their changes in the fair value for the year amounts to liability TL 153,748 (2012 - TL 41,431).

(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, 2013 was as follows:

	December 31, 2013	December 31, 2012
Net interest income / (expense)	(247,017)	(209,965)
Taxation	49,403	41,993

During 2013, a loss of TL 434 (2012 - TL 2,304) was recognized in the statement of income due to hedge ineffectiveness from cash flow hedges.

As of December 31, 2013 net accumulated losses arising from cash flow hedges recognized under equity, net of reclassification to statement of income and net of tax, is TL 115,117 (2012 - 560,813).

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, 2013 is EUR 275 million (2012 - EUR 264 million). The foreign exchange loss of TL 251,662 (2012 - TL 107,273 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 (2012 - None).

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

9. Loans and advances to customers

December 31, 2013

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

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**

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, 2013

	Corporate	Consumer	Leasing	Total
Watch listed loans	369,311	410,304	40,425	820,040
Loans under legal follow - up	373,350	42,900	50,917	467,167
Total	**742,661**	**453,204**	**91,342**	**1,287,207**

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

9. Loans and advances to customers (continued)

December 31, 2012

	Corporate	Consumer	Leasing	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**

The loans amounting to TL 1,983,314 (at amortized cost) included in the performing loans and advances to consumers have been designated as hedged items in fair value hedges as of December 31, 2013 (2012 - TL 1,831,710). Those loans have been hedged with interest rate swaps as part of a documented interest rate risk management strategy. The carrying values of such loans that are hedged items in fair value hedges, and otherwise carried at amortized cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

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

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

						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 (-) [1]	(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**

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

The Parent Bank sold part of its non-performing loans (from credit cards portfolio) amounting to TL 214,815 on December 6, 2013 to LBT Varlık Yönetimi A.Ş., Finansal Varlık Yönetimi A.Ş. and Anadolu Varlık Yönetimi A.Ş. for TL 39,650, in accordance with the Board of Directors' decision dated December 18, 2013. The Bank had set aside provision for TL 149,030.

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

9. Loans and advances to customers (continued)

The Parent Bank sold its TL 626,078 (includes the capital and uncollected interest and other receivables) of non-performing 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 YKL 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..

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

	December 31, 2013	December 31, 2012
Gross investment in direct finance leases	4,726,526	3,685,642
Unearned finance income	(640,316)	(499,425)
	4,086,210	**3,186,217**
Interest accrual on receivables	40,287	26,526
Receivables from outstanding lease payments	21,153	23,534
Provision for impaired lease receivables	(190,133)	(157,780)
Net investment in direct finance leases	**3,957,517**	**3,078,497**

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

	December 31, 2013	December 31, 2012
Less than 1 year	1,788,794	1,240,041
More than 1 year but not later than 5 years	2,510,097	1,916,961
Later than 5 years	155,355	195,999
Less: unearned finance income	(640,316)	(499,425)
Investment in performing lease receivables	**3,813,930**	**2,853,576**

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

10. Investment securities

(i) Securities available-for-sale

	December 31, 2013	December 31, 2012
Debt securities - at fair value:		
Government bonds and treasury bills	7,389,524	5,891,154
Eurobonds	1,569,463	5,272,000
Government and corporate bonds and treasury bills sold under repurchase agreements	516,599	698,990
Eurobonds sold under repurchase agreements	1,803,448	1,940,279
Other	1,892,556	1,829,398
Equity securities - at fair value:		
Listed	-	-
Unlisted	39,879	24,957
Total securities available-for-sale	**13,211,469**	**15,656,778**
Current	1,276,556	1,554,038
Non-current	11,934,913	14,102,740

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 loss from changes in the fair value of available-for-sale investment securities, net of tax is TL 1,616,511 (2012 - TL 1,606,167 net gain). 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, 2013	December 31, 2012
At January 1	**15,656,778**	**8,017,601**
Additions	11,273,077	3,768,824
Disposals / redemption	(11,639,522)	(3,609,598)
Transfers	(129,917)	5,412,380
Changes in fair value	(2,003,978)	2,006,623
Exchange differences on monetary assets	55,031	60,948
At December 31	**13,211,469**	**15,656,778**

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 2012 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 thousand and USD 3,764,123 thousand respectively at the date of the transfer. As of the date of these consolidated financial statements, sales have been realized from the portfolio classified.

In 2013, Yapı Kredi Bank Nederland N.V. has classified its USD 63,385 thousand and EUR 7,250 thousand nominal value of foreign currency denominated securities from available for sale portfolio to held-to-maturity portfolio in accordance with the IAS 39 relevant paragraphs.

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

10. Investment securities (continued)

(ii) Securities held-to-maturity

	December 31, 2013	December 31, 2012
Debt securities - at amortized cost - listed:		
Government bonds and treasury bills	2,944,089	1,588,275
Eurobonds	1,614,901	1,140,637
Government bonds and treasury bills sold under repurchase agreements	656,257	1,727,267
Eurobonds sold under repurchase agreement	1,312,121	1,285,931
Foreign government bonds[1]	362,235	85,584
Total securities held-to-maturity	**6,889,603**	**5,827,694**
Current	2,380,169	70,451
Non-current	4,509,434	5,757,243

(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, 2013	December 31, 2012
At January 1	**5,827,694**	**12,710,622**
Additions	504,486	50,325
Sales and redemptions	(126,415)	(946,471)
Transfers[2]	129,917	(5,412,380)
Other[1]	553,921	(574,402)
At December 31	**6,889,603**	**5,827,694**

(1) Includes the effect of exchange differences, impairment and changes in interest income accruals.
(2) Please refer to the movement in available-for-sale securities for detailed explanation.

11. Investment in associate

	December 31, 2013	December 31, 2012
At January 1	**193,934**	**183,940**
Purchase[1]	188,108	-
Share of results	15,771	18,982
Dividends paid	(2,582)	(2,069)
Exchange difference	51,730	(6,919)
At December 31	**446,961**	**193,934**

(1) The amount paid for the purchase of Allianz.

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

12. Investment in joint venture valued at net equity

As at December 31, 2013, the Group has one investment in jointly controlled entity.

	December 31, 2013	December 31, 2012
At January 1	**18,459**	**19,650**
Share of results	(8,083)	(1,191)
At December 31	**10,376**	**18,459**

The information about the jointly controlled entity is given below:

	Group's shareholding percentage	Current assets	Non-current assets	Long term debts	Income	Expense
Yapı Kredi Koray Gayrimenkul Yatırım Ortaklığı A.Ş.	30.45	79,111	43,321	31,970	45,381	64,588
Total	**30.45**	**79,111**	**43,321**	**31,970**	**45,381**	**64,588**

13. Goodwill

	December 31, 2013	December 31, 2012
At January 1	**1,023,528**	**1,023,528**
Impairment charge	-	-
At December 31	**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 impairment.

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 13.91%. 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, 2013 (2012 - None).

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

14. Other intangible assets

	December 31, 2013	December 31, 2012
Cost	712,832	634,879
Accumulated amortization	(298,642)	(252,839)
Net book amount	**414,190**	**382,040**

Movements of other intangible assets were as follows:

December 31, 2013	Rights and licenses	Software	Trademarks and customer relationships related intangibles	Total
Cost				
At January 1	**263,057**	**208,738**	**163,084**	**634,879**
Additions	93,592	37,737	-	131,329
Disposals	(7,401)	(14,053)	-	(21,454)
Transfers	(29,483)	29,483	-	-
Sale of a subsidiary	(25,972)	(7,880)	-	(33,852)
Translation differences	(1)	1,931	-	1,930
At December 31	**293,792**	**255,956**	**163,084**	**712,832**
Accumulated amortization				
At January 1	**(42,089)**	**(92,456)**	**(118,294)**	**(252,839)**
Amortization charge (Note 31)	(19,338)	(45,323)	(16,299)	(80,960)
Disposals	7,218	14,422	-	21,640
Transfers	(2,821)	2,821	-	-
Sale of a subsidiary	10,881	3,250		14,131
Translation differences	-	(614)	-	(614)
At December 31	**(46,149)**	**(117,900)**	**(134,593)**	**(298,642)**
Net book amount at December 31	**247,643**	**138,056**	**28,491**	**414,190**

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 31)	(19,159)	(37,433)	(16,344)	(72,936)
Disposals	22,002	12,315	-	34,317
Transfers	49	(49)	-	-
Translation differences	3	25	-	28
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**

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, 2013, the net book value of these intangible assets amounts to TL 28,491 (2012 - TL 44,790).

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

15. Property and equipment

	December 31, 2013	December 31, 2012
Cost	3,752,344	3,807,546
Accumulated depreciation and impairment	(2,733,473)	(2,748,317)
Net book amount	**1,018,871**	**1,059,229**

December 31, 2013	Land and buildings	Office equipments	Furniture and fixtures, vehicles and other	Leasehold improvements	Total
Cost					
At January 1	**2,385,841**	**820,309**	**397,199**	**204,197**	**3,807,546**
Additions	388	109,187	26,162	37,984	173,721
Disposals	(9,904)	(54,907)	(35,210)	(63,883)	(163,904)
Sale of a subsidiary	(14,876)	(1,312)	(37,615)	(17,556)	(71,359)
Translation difference	2,329	(6,041)	8,919	1,133	6,340
At December 31	**2,363,778**	**867,236**	**359,455**	**161,875**	**3,752,344**
Accumulated depreciation and impairment					
At January 1	**(1,732,410)**	**(624,909)**	**(283,247)**	**(107,751)**	**(2,748,317)**
Depreciation charge (Note 31)	(40,973)	(71,223)	(21,131)	(32,438)	(165,765)
Disposals	6,976	53,200	15,492	63,857	139,525
Sale of a subsidiary	(3,558)	1,214	29,191	13,963	40,810
Translation difference	(1,050)	7,888	(8,809)	1,866	(105)
(Reversal of) impairment , net (Note 31)	131	229	19	-	379
At December 31	**(1,770,884)**	**(633,601)**	**(268,485)**	**(60,503)**	**(2,733,473)**
Net book amount at December 31	**592,894**	**233,635**	**90,970**	**101,372**	**1,018,871**

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 31)	(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 31)	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**

At December 31, 2013, total impairment provision on property and equipment of the Parent Bank amounts to TL 327,673 (2012 - TL 327,804).

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

16. Other assets

	December 31, 2013	December 31, 2012
Collaterals given	374,897	789,954
Advances given	373,400	97,499
Prepaid expenses	258,574	245,906
Accounts receivable	213,764	92,587
Repossessed assets, net	171,021	148,727
Gold stocks	158,305	171,789
Payments for credit card settlements	142,059	135,662
Due from insurance policyholders	-	343,387
Other[1]	595,687	835,090
	2,287,707	**2,860,601**
Current	2,104,035	2,636,704
Non-current	183,672	223,897

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

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, 2013	December 31, 2012
Cost		
At January 1	**159,308**	**122,159**
Additions	66,982	72,707
Disposals	(45,294)	(35,558)
Translation differences	80	-
At December 31	**181,076**	**159,308**
Impairment		
At January 1	**(10,581)**	**(11,723)**
Reversal of impairment for the year, net (Note 31)	526	1,142
At December 31	**(10,055)**	**(10,581)**
Net book amount at December 31	**171,021**	**148,727**

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

17. Deposits from banks

	December 31, 2013			December 31, 2012		
	Demand	**Term**	**Total**	**Demand**	**Term**	**Total**
Foreign currency:						
Domestic banks	499	2,936	3,435	84	44,871	44,955
Foreign banks	105,836	807,939	913,775	166,053	731,873	897,926
Funds deposited under repurchase agreements	-	3,143,784	3,143,784	-	3,107,853	3,107,853
	106,335	**3,954,659**	**4,060,994**	**166,137**	**3,884,597**	**4,050,734**
TL:						
Domestic banks	360,396	530,059	890,455	197	260,877	261,074
Foreign banks	73,971	491,284	565,255	148,838	96,488	245,326
Funds deposited under repurchase agreements	-	221,320	221,320	-	1,685,426	1,685,426
	434,367	**1,242,663**	**1,677,030**	**149,035**	**2,042,791**	**2,191,826**
	540,702	**5,197,322**	**5,738,024**	**315,172**	**5,927,388**	**6,242,560**
Current	540,702	5,063,291	5,603,993	315,172	5,828,566	6,143,738
Non-current	-	134,031	134,031	-	98,822	98,822

18. Customer deposits

	December 31, 2013			December 31, 2012		
	Demand	**Term**	**Total**	**Demand**	**Term**	**Total**
Foreign currency deposits:						
Saving deposits	2,863,270	17,313,555	20,176,825	2,521,125	10,872,713	13,393,838
Commercial deposits	3,498,807	19,418,896	22,917,703	3,185,389	12,605,018	15,790,407
	6,362,077	**36,732,451**	**43,094,528**	**5,706,514**	**23,477,731**	**29,184,245**
TL deposits:						
Saving deposits	2,767,927	21,016,490	23,784,417	1,989,253	22,110,472	24,099,725
Commercial deposits	4,081,450	11,837,030	15,918,480	3,156,434	12,372,791	15,529,225
Funds deposited under repurchase agreements	-	29,118	29,118	-	25,583	25,583
Public sector deposits	715,021	2,596,415	3,311,436	598,082	282,831	880,913
	7,564,398	**35,479,053**	**43,043,451**	**5,743,769**	**34,791,677**	**40,535,446**
	13,926,475	**72,211,504**	**86,137,979**	**11,450,283**	**58,269,408**	**69,719,691**
Current	13,926,475	70,766,035	84,692,510	11,450,283	57,311,154	68,761,437
Non-current	-	1,445,469	1,445,469	-	958,254	958,254

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

19. Funds borrowed

	December 31, 2013	December 31, 2012
Foreign institutions and banks		
Syndication loans	5,745,888	4,428,844
Subordinated debt	4,338,204	3,450,738
Other	12,041,380	8,775,785
Total foreign	**22,125,472**	**16,655,367**
Domestic banks	1,504,299	1,089,701
Interbank money market and Settlement Custody Bank	2,211,064	1,654,815
Total domestic	**3,715,363**	**2,744,516**
	25,840,835	**19,399,883**
Current	15,562,451	11,973,224
Non-current	10,278,384	7,426,659

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

With the written approvals of the BRSA dated May 2, 2006 and June 19, 2007, the loans have been approved as subordinated loans and can be taken into consideration as supplementary capital within the limits of the Regulation Regarding Banks' Shareholders' Equity. According to the Regulation, subordinated loans obtained from Merrill Lynch Capital Corporation considered in the supplementary capital calculation at the rate of 40% since the remaining maturity of these loans is less than 3 years. Subordinated loans obtained from Citibank, N.A. London Branch is considered in the supplementary capital calculation at the rate of 60% since the remaining maturity of this loan is less than 4 years.

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

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

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

20. Debt securities in issue

The Bank has a securitization borrowing deal from Standard Chartered Bank and Unicredit Markets and Investment Banking amounting to USD 194 million and EUR 105 million respectively, the equivalent of TL 637,147 using Yapı Kredi Diversified Payment Rights Finance Company ("Structured 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 Bank also made a securitisation borrowing deal at August and September 2011, from Standard Chartered Bank, Wells Fargo, West LB and SMBC amounting to USD 225 million and EUR 206 million, the equivalent of TL 950,439 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 started in the last quarter of 2013.

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

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

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

	December 31, 2013	**December 31, 2012**
Securitization borrowings	2,576,083	1,641,731
Subordinated debt	2,142,778	1,744,904
Bills	1,992,970	716,171
Bonds	3,853,790	1,588,603
	10,565,621	**5,691,409**
Current	2,922,927	1,333,613
Non-current	7,642,694	4,357,796
	10,565,621	**5,691,409**

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

21. Taxation

	December 31, 2013	December 31, 2012
Current tax expense from continuing operations	(223,229)	(745,769)
Deferred tax income / (expense) from continuing operations	(427,075)	157,187
Income tax expense from continuing operations	**(650,304)**	**(588,582)**
Current tax expense from discontinued operations	(81,785)	(26,134)
Deferred tax income / (expense) from discontinued operations	-	(622)
Income tax expense from discontinued operations	**(81,785)**	**(26,756)**
Total income tax expense	**(732,089)**	**(615,338)**

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. 2011/93, 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.

(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, 2013	December 31, 2012
Profit before income taxes	**4,642,625**	**2,915,812**
Theoretical income tax at the applicable tax rate of 20%	928,525	583,162
Effect of different tax rates in other countries	2,688	1,587
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income exempt from taxation	(202,851)	(27,648)
- Non-deductible expenses for tax purposes	8,695	59,485
Other	(4,968)	(1,248)
Income tax expense	**732,089**	**615,338**

<u>Deferred income taxes</u>

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, 2013 (2012 - 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, 2013 and 2012 which are as follows:

		Tax rate (%)
Country of incorporation	**December 31, 2013**	**December 31, 2012**
Russia	20.00	20.00
Netherlands	25.00	25.00
Azerbaijan	20.00	20.00

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

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

21. Taxation (continued)

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, 2013	**December 31, 2012**	**December 31, 2013**	**December 31, 2012**
Impairment on assets	496,148	486,054	61,477	59,458
Allowance for loan impairment	989,893	1,164,484	195,420	231,531
Pension benefits transferable to the Social Security Institution (“SSI”) (Note 23)	767,131	827,177	153,426	165,435
Reserve for employment termination benefits (Note 23)	122,718	131,780	25,081	26,816
Revaluation of derivative instruments at fair value	1,262,940	1,299,005	276,380	257,260
Valuation differences on investment securities	20,709	642,440	5,240	128,460
Other	622,954	676,845	123,305	135,149
Deferred income tax assets	**4,282,493**	**5,227,785**	**840,329**	**1,004,109**
Difference between carrying value and tax base of property and equipment	620,621	638,237	75,903	79,425
Valuation differences on investment securities	210,645	1,888,338	42,130	377,318
Revaluation of derivative instruments at fair value	2,176,864	767,365	447,867	146,480
Other	68,117	129,799	13,544	33,983
Deferred income tax liabilities	**3,076,247**	**3,423,739**	**579,444**	**637,206**
Deferred income tax assets, net	**1,206,246**	**1,804,046**	**260,885**	**366,903**

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

	December 31, 2013	**December 31, 2012**
Balance at January 1	**366,903**	**551,735**
(Charge) / credit for the year, net	(427,075)	156,565
Available-for-sale revaluation reserve	397,894	(400,456)
Net investment hedge	36,097	(4,011)
Cash flow hedge	(111,423)	63,070
Re-measurement gains on defined benefit liability	(1,511)	-
Balance at December 31	**260,885**	**366,903**

There are no deductible temporary differences for which no deferred tax asset is recognized in the statement of financial position (2012 - None).

Income tax effects relating to components of other comprehensive income

	December 31, 2013			December 31, 2012		
	Before tax amount	**Tax (expense) benefit**	**Net-of tax amount**	**Before tax amount**	**Tax (expense) benefit**	**Net-of tax amount**
Foreign currency translation differences	277,540	-	277,540	(35,101)	-	(35,101)
Fair value gains on available-for- sale financial assets (including translation difference)	(2,003,978)	397,894	(1,606,084)	2,006,623	(400,456)	1,606,167
Net investment hedge	(180,485)	36,097	(144,388)	20,055	(4,011)	16,044
Cash flow hedge	557,121	(111,423)	445,698	(315,353)	63,070	(252,283)
Re-measurement gains on defined benefit liability	7,557	(1,511)	6,046	-	-	-
Other comprehensive income for the year (net presentation)	**(1,342,245)**	**321,057**	**(1,021,188)**	**1,676,224**	**(341,397)**	**1,334,827**

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

22. Other provisions

	December 31, 2013	December 31, 2012
Provision for losses on credit related commitments	301,481	256,754
Tax and other legal provisions	216,370	186,317
Provisions on credit cards and promotion campaigns	28,804	36,708
Provision on export commitment estimated liability	41,007	38,106
Other	57,425	164,134
	645,087	**682,019**
Current	108,013	64,169
Non-current	537,074	617,850

Credit related commitments provision

The Group management has estimated losses that may arise from credit related commitments and has recognized a provision of TL 301,481 (2012 - TL 256,754).

Tax and other legal provisions

The Group has recorded a provision of TL 52,576 (2012 - TL 48,743) 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 163,794 (2012 - TL 137,574) against potential tax risks in the form of possible tax duties and penalties in the consolidated financial statements for the year ended December 31, 2013.

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 41,007 (2012 - TL 38,106).

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, 2013 Total	December 31, 2012 Total
At January 1	**256,754**	**186,317**	**36,708**	**38,106**	**164,134**	**682,019**	**465,837**
Provision charged / (released)	44,676	51,269	135,999	2,901	50,299	285,144	365,843
Provision used	-	(19,705)	(143,908)	-	(157,049)	(320,662)	(149,638)
Sale of a subsidiary	-	(1,511)	-	-	-	(1,511)	-
Translation difference	51	-	5	-	41	97	(23)
Balance at December 31	**301,481**	**216,370**	**28,804**	**41,007**	**57,425**	**645,087**	**682,019**

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

23. Retirement benefit obligations

	December 31, 2013	December 31, 2012
Statement of financial position obligations for:		
- Post employment benefits (pension and medical) transferable to SSI	767,131	827,177
- Reserve for employment termination benefits	122,718	131,780
	889,849	**958,957**
Income statement (charge) / credit for:		
- Post employment benefits (pension and medical) transferable to SSI	60,046	(51,891)
- Reserve for employment termination benefits	(43,435)	(49,628)
	16,611	**(101,519)**

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, 2013 and 2012.

(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. It was also decided to extend the transfer date by one year in accordance with the decision of the Council of Ministers dated May 3, 2013.

(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 767,131 on December 31, 2013 (2012 - TL 827,177).

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, 2013	**December 31, 2012**
Present value of funded obligations	1,635,549	1,538,766
- Pension benefits transferable to SSI	*1,543,740*	*1,564,411*
- Post-employment medical benefits transferable to SSI	*91,809*	*(25,645)*
Fair value of plan assets	(868,418)	(711,589)
Liability in the statement of financial position	**767,131**	**827,177**

The principal actuarial assumptions used were as follows:

	December 31, 2013	**December 31, 2012**
	(%)	**(%)**
Discount rate		
- Pension benefits transferable to SSI	9.80	9.80
- Post-employment medical benefits transferable to SSI	9.80	9.80

The sensitivity analysis of defined benefit obligation of excess liabilities is as follows:

% change in defined benefit obligation	
	%
Discount rate +1%	(15,8)
Discount rate -1%	20,9
Price inflation +1%	30,8
Price inflation -1%	(21,4)

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

23. Retirement benefit obligations (continued)

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, 2013	December 31, 2012
Male	13	13
Female	18	18

Plan assets are as follows:

	December 31, 2013		December 31, 2012	
Government bonds and treasury bills	178,678	21%	173,291	24%
Property and equipment	304,423	35%	229,547	32%
Bank placements	339,980	39%	265,346	37%
Short term receivables	30,219	3%	19,000	3%
Other	15,118	2%	24,405	4%
	868,418	**100%**	**711,589**	**100%**

The fair value of the property and equipment occupied by the Group is TL 304,423 (2012 - TL 229,547).

Expected contributions to post-employment benefit plans for the year ending December 31, 2013 are TL 280,687 (2012- TL 263,062).

(ii) Reserve for employment termination benefits

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

	December 31, 2013	December 31, 2012
Balance at January 1	**131,780**	**113,982**
Sale of a subsidiary	(10,777)	-
Interest costs	6,141	5,311
Actuarial gains and losses	(7,557)	13,174
Annual charge	37,294	31,143
Paid during the year	(36,712)	(31,673)
Translation difference	2,549	(157)
Balance at December 31	**122,718**	**131,780**

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 the annual ceiling for each year of service.

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

23. Retirement benefit obligations (continued)

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, 2013	December 31, 2012
Discount rate (%)	4.78	4.66
The probability of retirement (%)	94.59	94.94

Additionally, the principal actuarial assumption is that the maximum liability will increase in line with inflation. Thus, the discount rate applied represents the expected real rate after adjusting for the effects of future inflation. As the annual ceiling is revised semi-annually, the ceiling of full TL 3,438.22 effective from January 1, 2014 (January 1, 2013 - full TL 3,129.25) has been taken into consideration in calculating the reserve for employment termination benefits of the Parent and its domestic subsidiaries.

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

24. Other liabilities

	December 31, 2013	December 31, 2012
Credit card payables	4,881,367	4,289,332
Miscellaneous payables to customers	1,184,154	367,429
Blocked accounts	715,358	635,030
Clearing accounts	868,244	1,304,415
Premium and bonuses payable to personnel	152,409	120,070
Taxes other than on income and withholdings	161,772	177,517
Provision for unused annual vacation	115,317	104,551
Import deposit and transfer orders	58,174	176,904
Unearned income	226,663	225,233
Advances taken	42,616	28,733
Saving Deposits Insurance Fund payable	28,537	19,989
Other[1]	1,210,117	1,477,098
Total	**9,644,728**	**8,926,301**
Current	9,643,585	8,910,416
Non-current	1,143	15,885

(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.

25. Acquisitions and mergers

(i) Mergers, transfers and acquisitions in the year 2013 and 2012

None.

26. Share capital and share premium

The historic amount of share capital of the Bank consists of 434,705,128.40 (2012 - 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 (2012 - TL 4,347,051).

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

	December 31, 2013		December 31, 2012	
Shareholders	**Participation rate (%)**		**Participation rate (%)**	
Koç Finansal Hizmetler A.Ş.	81.80	3,555,712	81.80	3,555,712
Other	18.20	791,339	18.20	791,339
Historical share capital	**100.00**	**4,347,051**	**100.00**	**4,347,051**
Adjustment to share capital		(60,471)		(60,471)
Share premium		535,679		535,679
Total share capital and share premium		**4,822,259**		**4,822,259**

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

26. Share capital and share premium (continued)

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".

27. Retained earnings and other reserves

	December 31, 2013	December 31, 2012
Statutory reserve	463,811	359,872
Translation reserves	488,605	211,065
Revaluation reserve - available-for-sale investments	(80,805)	1,524,900
Hedging reserves	(366,777)	(668,087)
Re-measurement gains on defined benefit liability	6,046	-
Total other reserves	**510,880**	**1,427,750**
Retained earnings	**13,735,847**	**10,232,299**

Movements in other reserves were as follows:

	Statutory reserves	Revaluation reserves	Translation reserves	Hedging reserves	Actuarial gains	Total
At January 1, 2013	**359,872**	**1,524,900**	**211,065**	**(668,087)**	**-**	**1,427,750**
Net change in available-for-sale investments, net of tax	-	(1,605,705)	-	-	-	(1,605,705)
Gains / (losses) on hedges of a net investment in a foreign operation	-	-	-	(144,388)	-	(144,388)
Losses on cash flow hedges	-	-	-	445,698	-	445,698
Currency translation differences	-	-	277,540	-	-	277,540
Re-measurement gains on defined benefit liability, net of tax	-	-	-	-	6,046	6,046
Transfer to statutory reserves	103,939	-	-	-	-	103,939
At December 31, 2013	**463,811**	**(80,805)**	**488,605**	**(366,777)**	**6,046**	**510,880**

	Statutory reserves	Revaluation reserves	Translation reserves	Hedging reserves	Actuarial gains	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)
Re-measurement gains on defined benefit liability, net of tax	-	-	-	-	-	-
Transfer to statutory reserves	92,874	-	-	-	-	92,874
At December 31, 2013	**359,872**	**1,524,900**	**211,065**	**(668,087)**	**-**	**1,427,750**

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

27. 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.

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.

28. Net interest income

	December 31, 2013	December 31, 2012
Interest income on:		
Loans and advances:		
- to banks	106,288	118,855
- to customers	7,874,598	7,913,044
Trading and investment securities	1,454,538	1,547,064
Derivative financial instruments	147,062	159,129
Financial leases	284,050	237,891
Reserve deposits	118	186
Other	140,029	159,518
Total interest income	**10,006,683**	**10,135,687**
Interest expense on:		
Due to customers	(3,519,337)	(4,030,638)
Funds borrowed	(721,053)	(617,856)
Derivative financial instruments	(653,784)	(606,065)
Securities issued	(270,222)	(226,583)
Repurchase agreements	(115,407)	(152,565)
Deposits from banks	(38,340)	(33,545)
Other	(185,532)	(135,420)
Total interest expense	**(5,503,675)**	**(5,802,672)**
Net interest income	**4,503,008**	**4,333,015**

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

29. Net fee and commission income

	December 31, 2013	December 31, 2012
Fee and commission income on:		
Credit/debit cards	1,047,667	1,081,935
Banking services	825,721	669,025
Assets under management	154,566	128,386
Loans		
- Credit related commitments	298,590	263,673
- Loans and advances	6,940	14,787
Brokerage	54,139	46,106
Insurance products	95,348	78,273
Factoring	13,847	18,579
Other	35,249	21,107
Total fee and commission income	**2,532,067**	**2,321,871**
Fee and commission expense on:		
Credit/debit cards	(286,938)	(330,105)
Brokerage	(8,744)	(7,689)
Factoring	(2,985)	(3,067)
Funds borrowed	(970)	(1,781)
Other	(207,554)	(73,216)
Total fee and commission expense	**(507,191)**	**(415,858)**
Net fee and commission income	**2,024,876**	**1,906,013**

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

	December 31, 2013	December 31, 2012
Foreign exchange:		
- Translation gains less losses on trading securities	(6,570)	5,916
- Transaction gains less losses	(809,466)	340,583
Interest rate instruments	867,319	(349,795)
Equities	(270)	1,903
Credit derivatives	(3,387)	34,141
	47,626	**32,748**

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 675,995 (2012 - TL 296,937 gains) comprise of net results on sales of investment securities.

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

31. Other operating expenses

	December 31, 2013	December 31, 2012
Staff costs	**(1,564,734)**	**(1,442,387)**
Depreciation on property and equipment (Note 15)	(165,765)	(159,808)
Amortization of intangible assets (Note 14)	(80,960)	(68,198)
Depreciation and amortization	**(246,725)**	**(228,006)**
(Impairment charge) / reversal of impairment on property and equipment (Note 15)	379	-
Impairment (charge) / reversal	**379**	**-**
Rent expenses	(193,846)	(166,666)
Marketing and advertisement costs	(114,012)	(92,786)
Communication expenses	(113,282)	(98,845)
Payment to Saving Deposit Insurance Fund	(108,410)	(79,288)
Sundry taxes and duties	(99,428)	(86,103)
Repair and maintenance expenses	(68,083)	(54,192)
Audit and consultancy fees	(60,090)	(42,268)
Utilities expenses	(46,529)	(42,938)
Charities	(6,056)	(5,549)
Other	(397,014)	(467,878)
General and administrative expenses	**(1,206,750)**	**(1,136,513)**
Total	**(3,017,830)**	**(2,806,906)**

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

	December 31, 2013	December 31, 2012
Impairment losses on loans and receivables (Note 9)	(923,612)	(778,704)
Impairment losses on investment securities	-	1,217
Impairment losses on credit related commitments (Note 22)	(44,676)	(51,901)
	(968,288)	**(829,388)**

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

33. 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, 2013 (2012 - none).

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

	December 31, 2013	December 31, 2012
Profit attributable to equity holders of the Parent	3,907,899	2,290,388
Weighted average number of ordinary shares in issue (thousand) (1 Kr each)	434,705,128	434,705,128
Basic and diluted earnings per share (expressed in TL, full amount per thousand share)	**8.99**	**5.27**

	December 31, 2013	December 31, 2012
Profit attributable to equity holders of the Parent for continuing operations	2,621,274	2,189,924
Weighted average number of ordinary shares in issue (thousand) (1 Kr each)	434,705,128	434,705,128
Basic and diluted earnings per share for continuing operations (expressed in TL, full amount per thousand share)	**6.03**	**5.04**

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

34. Assets pledged and restricted

The Group has the following assets pledged as collateral:

	December 31, 2013		December 31, 2012	
	Assets	Related liability	Assets	Related liability
Trading securities (Note 7)	-	-	43,171	-
Investment securities (Note 10)	6,643,253	3,595,247	8,745,061	4,982,881
Other assets pledged [1]	322,360	-	757,275	-
Total	**6,965,613**	**3,595,247**	**9,545,507**	**4,982,881**

(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 4,526,628 as of December 31, 2013 (2012 - TL 5,859,057) 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 3,395,247 as of December 31, 2013 (2012 - TL 4,982,881). In accordance with the terms of the agreements with these financial institutions (“transferees”), the Bank provides these collaterals (debt instruments as given above) to the transferees and the transferees have the right to sell or repledge the collaterals until the expiry date of the agreements.

Securities are also pledged to regulatory authorities for legal requirements and other financial institutions as a guarantee for stock exchange and money market operations. These are mainly the CBRT, Istanbul Stock Exchange (ISE) Settlement and Custody Bank and other financial institutions and amount to TL 2,116,625 (2012 - TL 2,929,175).

As of December 31, 2013, the Group’s reserve deposits that are not available for unrestricted use, including those at foreign central banks, amount to TL 17,068,838 (2012 - TL 9,591,473). There is also TL 203,519 (2012 - TL 130,530) of deposits blocked held in foreign bank accounts.

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

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

35. 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).

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

35. Commitments and contingent liabilities (continued)

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

Credit related commitments

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

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

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

As of December 31, 2013 the Group's commitments for unused credit card limits amounted to TL 21,610,762 (2012 - TL 17,900,797).

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

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**

(1) Based on original maturities.

36. Segment analysis

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

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

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

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

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

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

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

36. Segment analysis (continued)

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

December 31, 2013	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]	3,041,777	1,705,313	159,474	185,035	803,585	-	1,554,602	24,319	7,474,105
Segment expenses[3]	(2,522,807)	(470,916)	(72,996)	(94,745)	(180,730)	-	(873,846)	6,065	(4,209,975)
Segment result	518,970	1,234,397	86,478	90,290	622,855	-	680,756	30,384	3,264,130
Operating profit	**518,970**	**1,234,397**	**86,478**	**90,290**	**622,855**	**-**	**680,756**	**30,384**	**3,264,130**
Share of results of associates and joint ventures	-	-	-	-	-	-	7,688		7,688
Profit before tax	**518,970**	**1,234,397**	**86,478**	**90,290**	**622,855**	**-**	**688,444**	**30,384**	**3,271,818**
Profit from discontinued operations, net of tax	**-**	**-**	**-**	**-**	**-**	**-**	**1,289,022**	**-**	**1,289,022**
Income tax expense	-	-	-	-	-	-	(650,304)	-	(650,304)
Profit for the year[3]	**518,970**	**1,234,397**	**86,478**	**90,290**	**622,855**	**-**	**1,327,162**	**30,384**	**3,910,536**
December 31, 2013									
Segment assets[3]	46,847,599	41,597,715	177,420	6,136,749	10,011,482	-	57,139,823	(2,553,939)	159,356,849
Associates and joint ventures	-	-	-	-	-	-	457,337	-	457,337
Total assets	**46,847,599**	**41,597,715**	**177,420**	**6,136,749**	**10,011,482**	**-**	**57,597,160**	**(2,553,939)**	**159,814,186**
Segment liabilities[3]	34,135,357	35,600,735	18,846,849	4,986,213	8,207,762	-	60,829,222	(2,791,952)	159,814,186
Total liabilities	**34,135,357**	**35,600,735**	**18,846,849**	**4,986,213**	**8,207,762**	**-**	**60,829,222**	**(2,791,952)**	**159,814,186**

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

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	-	1,670,479	(140,884)	6,815,971
Segment expenses[3]	(2,283,382)	(424,478)	(67,650)	(72,696)	(173,872)	-	(964,559)	(65,013)	(4,051,650)
Segment result	719,927	1,140,723	56,259	86,893	260,496	-	705,920	(205,897)	2,764,321
Operating profit	**719,927**	**1,140,723**	**56,259**	**86,893**	**260,496**	**-**	**705,920**	**(205,897)**	**2,764,321**
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**	**-**	**723,711**	**(205,897)**	**2,782,112**
Profit from discontinued operations, net of tax	**-**	**-**	**-**	**-**	**-**	106,944	-	**-**	106,944
Income tax expense	-	-	-	-	-	-	(588,582)	-	(588,582)
Profit for the year[3]	**719,927**	**1,140,723**	**56,259**	**86,893**	**260,496**	**106,944**	**135,129**	**(205,897)**	**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. 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, 2013			
	Parent	**Other[1]**	**Key management**	**Total**
Loans and advances to customers, net	94,642	1,675,212	74	1,769,928
Trading and investment securities	-	834	-	834
Derivative financial instruments	2,728	4,490	-	7,218
Loans and advances to banks	32,571	84,361	-	116,932
Total assets	**129,941**	**1,764,897**	**74**	**1,894,912**
Customer deposits	5,961,916	4,777,428	81,055	10,820,399
Funds borrowed	8,905,517	1,693,088	-	10,598,605
Derivative financial instruments	1,299	29,572	-	30,871
Other liabilities	265	43	-	308
Deposits from banks	613,032	51	-	613,083
Total liabilities	**15,482,029**	**6,500,182**	**81,055**	**22,063,266**
Commitment under derivative instruments	431,818	1,051,952	-	1,483,770
Credit related commitments	442,253	659,635	-	1,101,888
Total commitments and contingent liabilities	**874,071**	**1,711,587**	**-**	**2,585,658**

	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**

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

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

37. Related party transactions (continued)

(ii) Transactions with related parties:

	December 31, 2013			
	Parent	**Other[(1)]**	**Key management**	**Total**
Interest income on loans and advances to customers	9,805	89,884	2	99,691
Fee and commission income	7,108	19,932	-	27,040
Interest income on financial leases	-	10,230	-	10,230
Interest income on loans and advances to banks	13	930	-	943
Other operating income	-	654	-	654
Total interest and fee income	**16,926**	**121,630**	**2**	**138,558**
Interest expense on deposits	(387,295)	(279,019)	(1,420)	(667,734)
Interest expense on funds borrowed	(56,033)	(102,676)	-	(158,709)
Other operating expense	(3,043)	(4,347)	-	(7,390)
Fee and commission expense	(4)	(2)	-	(6)
Total interest and fee expense	**(446,375)**	**(386,044)**	**(1,420)**	**(833,839)**

	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)**

(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 43,220 as of December 31, 2013 (2012 - TL 34,709).

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

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

38. Assets under management

At December 31, 2013, the Group manages 40 mutual funds (2012 - 40) with total fund value of TL 5,550,923 (2012 - TL 5,311,403) and 19 private pension funds (2012 - 16) with total fund value of TL 4,231,470 (2012 - TL 3,449,886), which were established under CMB regulations.

39. Discontinued operation

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

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

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

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

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

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

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

December 31, 2012	**Published**	**Adjustment**	**Restated**
Interest income	10,176,529	(40,842)	10,135,687
Interest expense	(5,774,880)	(27,792)	(5,802,672)
Net interest income	**4,401,649**	**(68,634)**	**4,333,015**
Fee and commission income	2,374,169	(52,298)	2,321,871
Fee and commission expense	(541,748)	125,890	(415,858)
Net fee and commission income	**1,832,421**	**73,592**	**1,906,013**
Foreign exchange gains, net	154,621	(765)	153,856
Net trading, hedging and fair value income / (loss)	35,108	(2,360)	32,748
Gains from investment securities, net	296,937	-	296,937
Insurance technical income, net	217,410	(217,410)	-
Other operating income	64,268	29,134	93,402
Operating income	**7,002,414**	**(186,443)**	**6,815,971**
Impairment losses on loans, investment securities and credit related commitments, net	(829,388)	-	(829,388)
Provision for retirement benefit obligations, net	(101,519)	-	(101,519)
Other provisions	(313,942)	105	(313,837)
Other operating expenses	(2,859,544)	52,638	(2,806,906)
Operating profit	**2,898,021**	**(133,700)**	**2,764,321**
Share of profit/(loss) of associates and joint ventures accounted for using the equity method	17,791	-	17,791
Profit before income tax from continuing operations	**2,915,812**	**(133,700)**	**2,782,112**
Income tax expense	(615,338)	26,756	(588,582)
Profit for the year from continuing operations	**2,300,474**	**(106,944)**	**2,193,530**
Profit from discontinued operations, net of tax	-	106,944	106,944
Profit for the year	**2,300,474**	**-**	**2,300,474**

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

39. Discontinued operation (continued)

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

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

Result of discontinued operation:

	December 31, 2013	**December 31, 2012**
Net interest income	32,571	68,634
Net fee and commission income	(26,003)	(73,592)
Other operating income	149,064	191,401
Other operating expenses	(106,054)	(52,743)
Profit before income tax	**49,578**	**133,700**
Current tax expense	(10,009)	(26,134)
Deferred tax income / (expense)	-	(622)
Profit from operating activities for the year	**39,569**	**106,944**
Gain on sale of discontinued operation	1,321,229	-
Income tax on gain on sale of discontinued operation	(71,776)	-
Profit for the year	**1,289,022**	**106,944**

The profit from the discontinued operation of TL 1,289,022 is attributable to the owners of the Group.

Cash flows from discontinued operation:

	December 31, 2013
Net cash from investing activities	1,738,931
Cash and cash equivalents disposed of	(380,665)
Net cash flow for the year	**1,358,266**

40. Subsequent events

In its resolution dated February 26, 2014, the Board of Directors of the Bank decided to submit the distribution of the cash dividend for the year 2013 amounting to TL 388,000 to the approval of shareholders at the annual General Assembly meeting planned to be scheduled on March 27, 2014.