Yapı ve Kredi Bankası A.Ş.

Interim condensed consolidated financial statements at June 30, 2013 together with independent auditor's review report

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Report on review of interim condensed consolidated financial statements

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

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Yapı ve Kredi Bankası A.Ş. and its subsidiaries ("the Group") as at June 30, 2013, comprising of the interim consolidated statement of financial position as at June 30, 2013 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, "Interim financial reporting" (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

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

Conclusion

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

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

Ayşe Zeynep Deldag
Partner, SMMM

Istanbul, September 5, 2013

Yapı ve Kredi Bankası A.Ş.

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Interim consolidated statement of financial position at June 30, 2013

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

	Note	June 30, 2013	December 31, 2012
Assets			
Cash and balances with central banks	6	15,781,049	11,487,948
Loans and advances to banks		5,833,907	8,117,182
Financial assets held for trading			
- Trading securities	7	223,936	539,404
- Trading securities pledged as collateral	21	-	43,171
- Derivative financial instruments	5	798,155	416,145
Loans and advances to customers	8	92,701,195	82,776,658
Hedging derivatives	5	283,110	94,166
Investment securities			
- Available-for-sale	9	8,683,818	11,224,842
- Available-for-sale pledged as collateral	21	5,681,597	4,431,936
- Held-to-maturity	9	994,050	1,514,569
- Held-to-maturity pledged as collateral	21	5,027,781	4,313,125
Investment in associates and joint ventures accounted for using the equity method		225,282	212,393
Goodwill		1,023,528	1,023,528
Other intangible assets		362,635	382,040
Property and equipment		981,689	1,059,229
Deferred income tax assets	15	375,642	366,903
Other assets		1,969,206	2,860,601
Non current assets and disposal groups classified as held for sale	10	1,678,134	-
Total assets		**142,624,714**	**130,863,840**
Liabilities			
Deposits from banks	11	8,740,405	6,242,560
Customer deposits	12	76,401,814	69,719,691
Funds borrowed	13	20,719,041	19,399,883
Debt securities in issue	14	7,112,462	5,691,409
Derivative financial instruments	5	471,972	384,481
Current income taxes payable		44,152	231,592
Hedging derivatives	5	467,658	904,687
Other provisions	16	663,483	682,019
Retirement benefit obligations		988,051	958,957
Insurance technical reserves		-	1,179,216
Other liabilities		8,550,676	8,926,301
Liabilities included in disposal groups classified as held for sale		1,540,652	-
Total liabilities		**125,700,366**	**114,320,796**
Equity			
Share capital and share premium		4,822,259	4,822,259
Other reserves	17	828,056	1,427,750
Retained earnings	17	11,211,561	10,232,299
Equity attributable to equity holders of the parent		**16,861,876**	**16,482,308**
Equity attributable to non-controlling interests		62,472	60,736
Total equity		**16,924,348**	**16,543,044**
Total liabilities and equity		**142,624,714**	**130,863,840**

The accompanying notes set out on pages 7 to 50 form an integral part of these consolidated financial statements.

Yapı ve Kredi Bankası A.Ş.

Interim consolidated statement of income for the six-month period ended June 30, 2013
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	June 30, 2013	June 30, 2012
Interest income		4,937,965	4,956,549
Interest expense		(2,510,056)	(2,944,973)
Net interest income		**2,427,909**	**2,011,576**
Fee and commission income		1,164,884	1,050,418
Fee and commission expense		(207,932)	(228,630)
Net fee and commission income		**956,952**	**821,788**
Foreign exchange gains, net		59,502	66,981
Net trading, hedging and fair value income / (losses)	18	(15,993)	(42,478)
Gains from investment securities, net	18	318,302	83,327
Insurance technical income, net		-	-
Other operating income		38,117	31,085
Operating income		**3,784,789**	**2,972,279**
Impairment losses on loans, investment securities and credit related commitments, net		(501,936)	(338,156)
Provision for retirement benefit obligations		(46,459)	(43,654)
Other provisions	16	(100,838)	(92,251)
Other operating expenses	19	(1,469,578)	(1,310,599)
Operating profit		**1,665,978**	**1,187,619**
Share of profit/(loss) of associates and joint ventures accounted for using the equity method		113	7,025
Profit before income tax		**1,666,091**	**1,194,644**
Income tax expense	15	(332,971)	(248,063)
Total profit or loss from discontinued operations net of taxes		52,863	36,303
Profit for the period		**1,385,983**	**982,884**
Attributable to:			
Equity holders of the parent		1,383,274	977,811
Non-controlling interest		2,709	5,073
		1,385,983	**982,884**
Basic and diluted earnings per share attributable to the equity holders of the parent (expressed in TL per thousand share)	20	3.18	2.25

The accompanying notes set out on pages 7 to 50 form an integral part of these consolidated financial statements.

Yapı ve Kredi Bankası A.Ş.

Interim consolidated statement of comprehensive income for the six-month period ended June 30, 2013

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

	Note	June 30, 2013	June 30, 2012
Profit for the period		**1,385,983**	**982,884**
Exchange differences on translation of foreign operations		92,238	(65,307)
Net gains / (losses) on available-for-sale financial assets			
- Unrealized net gains / (losses) arising during the period, before tax		(1,354,019)	204,274
- Net amount reclassified to the statement of income, before tax		2,890	(236)
Net investment hedges			
- Net gains (losses) arising on hedges recognized in other comprehensive income, before tax		(58,683)	39,544
Cash flow hedges			
- Net losses arising on hedges recognized in other comprehensive income, before tax		223,627	(216,919)
- Net amount reclassified to the statement of income, before tax		196,933	75,073
Income tax relating to components of other comprehensive income		**193,166**	**(22,518)**
Other comprehensive income for the period, net of tax		**(703,848)**	**13,911**
Total comprehensive income for the period		**682,135**	**996,795**
Total comprehensive income attributable to:			
Equity holders of the parent (total)		679,642	991,416
Non-controlling interest (total)		2,493	5,379

The accompanying notes set out on pages 7 to 50 form an integral part of these consolidated financial statements.

Interim consolidated statement of changes in equity for the six-month period ended June 30, 2013

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

	Attributable to equity holders of the parent						
	Share capital	Share premium	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance at January 1, 2012	**4,286,580**	**535,679**	**644**	**8,047,016**	**12,869,919**	**63,124**	**12,933,043**
Total comprehensive income for the period	-	-	13,605	977,811	991,416	5,379	996,795
Dividends paid	-	-	-	-	-	(3,069)	(3,069)
Transfer to statutory reserves	-	-	92,874	(92,874)	-	-	-
Purchase from minority interests	-	-	-	(1,458)	(1,458)	(1,191)	(2,649)
Balance at June 30, 2012	**4,286,580**	**535,679**	**107,123**	**8,930,495**	**13,859,877**	**64,243**	**13,924,120**
Balance at January 1, 2013	**4,286,580**	**535,679**	**1,427,750**	**10,232,299**	**16,482,308**	**60,736**	**16,543,044**
Total comprehensive income for the period			(703,632)	1,383,274	679,642	2,493	682,135
Dividends paid	-	-	-	(300,000)	(300,000)	(678)	(300,678)
Transfer to statutory reserves	-	-	103,938	(103,938)	-	-	-
Purchase from non-controlling interests				(74)	(74)	(79)	(153)
Balance at June 30, 2013	**4,286,580**	**535,679**	**828,056**	**11,211,561**	**16,861,876**	**62,472**	**16,924,348**

The accompanying notes set out on pages 7 to 50 form an integral part of these consolidated financial statements.

Interim consolidated statement of cash flows for the six-month period ended June 30, 2013

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

	Note	June 30, 2013	June 30, 2012
Cash flows from operating activities			
Net profit		1,385,983	982,884
Adjustments for:			
Unrealized (gain) / loss on financial assets held for trading, net		16,429	(8,586)
Allowances for losses on loans, investment securities and credit related commitments		501,936	338,156
Measurement of derivative financial instruments at fair value	5	(920,492)	214,455
Share of profit of associates and joint ventures		(113)	(7,025)
Amortization of other intangible assets	19	38,176	34,174
Depreciation of property and equipment	19	83,359	81,108
Provision for current and deferred income taxes		332,971	257,612
Other provisions	16	100,838	92,175
Provision / (reversal) for retirement benefit obligations		46,459	45,566
Other liabilities		(23,248)	(57,180)
Unearned commission income		21,506	77,543
Dividend income		(15,399)	(1,647)
Interest income, net		(2,427,909)	(2,033,878)
Interest paid		(2,587,682)	(2,825,899)
Interest received		5,924,641	4,911,872
Effect of exchange rates on financing activities		2,242,784	(1,137,129)
Others, net		(386,186)	554,470
Cash flows from operating profits before changes in operating assets and liabilities		**4,334,053**	**1,518,671**
Changes in operating assets and liabilities:			
Net decrease / (increase) in cash balances with central banks		(3,209,827)	(2,706,164)
Net decrease / (increase) in loans and advances to banks		417,557	(328,462)
Net decrease / (increase) in trading securities		342,210	14,390
Net decrease / (increase) in loans and advances to customers		(10,240,113)	(4,078,419)
Net (increase) / decrease in other assets		(1,104,936)	(49,051)
Net increase / (decrease) in deposits from banks		2,499,223	1,006,459
Net (decrease) / increase in customer deposits		6,610,091	2,452,707
Net increase / (decrease) in other liabilities and provisions		(948,905)	748,877
Income taxes paid		(335,984)	(264,076)
Net cash from / (used in) operating activities		**(1,636,631)**	**(1,685,068)**
Cash flows from investing activities			
(Purchase of) property and equipment		(38,425)	(226,448)
Net book value of property and equipment disposed		4,726	185,342
(Purchase of) intangible assets, net		3,641	(58,318)
(Purchase of) held-to-maturity securities		(29,264)	(4,557)
Redemption or sale of held-to-maturity securities		65,370	89,479
(Purchase of) available-for-sale securities		(7,263,993)	(2,404,650)
Sale or redemption of available-for-sale securities		7,397,975	2,576,307
Dividends received		15,399	1,647
Others, net		(30,104)	13,870
Net (used in) investing activities		**125,325**	**172,672**
Cash flows from financing activities			
(Repayments of) borrowed funds and debt securities		(11,432,855)	(3,968,365)
Proceeds from borrowed funds and debt securities		11,964,855	6,295,925
Dividend paid to minority		(300,678)	(3,069)
Net cash from / (used in) financing activities		**231,322**	**2,324,491**
Net increase / (decrease) in cash and cash equivalents		**(1,279,984)**	**812,095**
Effects of foreign exchange rate changes on cash and cash equivalents		407,701	(314,320)
Cash and cash equivalents at beginning of period	6	11,014,535	11,947,789
Cash and cash equivalents at end of period	**6**	**10,142,252**	**12,445,564**

The accompanying notes set out on pages 7 to 50 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 interim condensed consolidated financial statements) was established with the permission of the Council of Ministers of the Republic of Turkey No.3/6710 on September 9, 1944 as a private capital commercial bank, authorized to perform all banking, economic, financial and commercial activities which are allowed by Turkish laws. The statute of the Bank has not changed since its in corporation. The Group provides retail, corporate and private banking, credit cards, insurance, leasing, factoring and investment management services. The Group has operations in Turkey, the Netherlands, Azerbaijan and Russia.

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

The Bank's shares have been traded on the Istanbul Stock Exchange ("ISE") since 1987. As of June 30, 2013, 18.20% of the shares of the Bank are publicly traded (December 31, 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 June 30, 2013, the Group has 17,848 employees (December 2012 - 17,459 employees). The Bank has 931 branches operating in Turkey and 1 branch in a foreign country (December 2012 - 927 branches operating in Turkey, 1 branch in a foreign country) and 15,003 employees (December 31, 2012 – 14,733 employees)

There is no change in the consolidation structure of the Group since December 31, 2012.

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

The interim condensed consolidated financial statements have been reviewed, not audited.

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on September 5, 2013. The General Assembly and certain regulatory bodies have the power to amend the statutory financial statements after issue.

2. Summary of significant accounting policies

A. Basis of preparation

These interim condensed consolidated financial statements for the period ended June 30, 2013 have been prepared in accordance with IAS 34, "Interim Financial Reporting". The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) for the year ended December 31, 2012.

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

2. Summary of significant accounting policies (continued)

Changes in accounting policy and disclosures:

The accounting policies adopted in preparation of the interim condensed consolidated financial statements as at June 30, 2013 are consistent with those of the previous financial year, except for the adoption of new and amended IFRS and IFRIC interpretations effective as of January 1, 2013 noted below:

New and Revised IFRSs affecting presentation and disclosure only

- Amendments to IAS 1 Presentation of Items of Other Comprehensive Income
- Amendments to IAS 1 Clarification of the Requirements for Comparative Information
- IFRS12 Disclosure of Interest in Other Entities
- IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities

The new disclosures required by those standards will be given in the 2013 year-end accounts and are not applicable in the interim reporting within such financial year.

The adaptation of these standards, amendments and interpretations did not have any effect on the financial performance of the Group.

New and Revised IFRSs applied which are effective as at January 1, 2013 with no material effect on the consolidated financial statements

- IFRS10 Consolidated Financial Statements
- IFRS11 Joint Arrangements
- IFRS13 Fair Value Measurement
- IFRS 10, IFRS 11 and IFRS 12 Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities - Transition Guide
- IAS19 Employee Benefits (as revised in 2011)
- IAS27 Separate Financial Statements (as revised in 2011)
- IAS28 Investments in Associates and Joint Ventures (as revised in 2011)
- Amendments to IFRS, - Annual Improvements to IFRSs 2009-2011 Cycle except for the amendment to IAS 1

New and revised standards as stated above do not have a significant effect on the Bank's accounting policies, financial position or performance. The changes introduced by IFRS 10 have been evaluated by the Bank and it was concluded the changes have no impact on the accounting policies of the Bank.

In addition the Bank was already applying equity method therefore IFRS 11 will not lead to any changes. The changes in IFRS 12, IAS 27 and IAS 28 are also evaluated by the Bank and it was concluded that no impact on the accounting policies of the Bank.

2. Summary of significant accounting policies (continued)

New and Revised Standards issued but not yet effective and not early adopted

IFRS 9 Financial Instruments

As amended in December 2011, the new standard is effective for annual periods beginning on or after January 1, 2015. Phase 1 of this new IFRS introduces new requirements for classifying and measuring financial instruments. The amendments made to IFRS 9 will mainly affect the classification and measurement of financial assets and measurement of fair value option (FVO) liabilities and requires that the change in fair value of a FVO financial liability attributable to credit risk is presented under other comprehensive income. Early adoption is permitted. This standard has not yet been endorsed by the EU. The Group is in the process of assessing the impact of the amendment on financial position or performance of the Group.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

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

Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets

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

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

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

IFRIC 21 Levies

The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognized before the specified minimum threshold is reached. The interpretation is effective for annual periods beginning on or after January 1, 2014, with early application permitted. Retrospective application of this interpretation is required. This interpretation has not yet been endorsed by the EU. 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 IFRS 10 Consolidated Financial Statements

IFRS 10 is amended to provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IFRS 9 Financial Instruments. This amendment has not yet been endorsed by the EU. The amendments will not have any impact on the financial position or performance of the Group.

Amendments to IFRS 27 Separate Financial Statements

As a consequential amendment to IFRS 10 and IFRS 12, the IASB also amended IAS 27, which is now limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. This amendment did not have an impact on the financial position or performance of the Group.

Amendments to IFRS 12 Disclosure of Interest in Other Entities -

IFRS 12 includes all of the requirements that are related to disclosures of an entity's interests in subsidiaries, joint arrangements, associates and structured entities. Apart from the disclosures regarding the significant issues and transactions in the interim period, disclosures according to the new standards are not applicable to interim periods so the Group did not provide this disclosure in the interim period.

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

The carrying values of recognized assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortized cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

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

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

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

In preparing these interim condensed consolidated financial statements, the significant judgements made by management in applying the accounting policies and the key sources of estimation uncertainty are the same as those that are applied in the annual consolidated financial statements for the year ended December 31, 2012.

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

4. Comparatives and explanations on other matters

The Parent Bank has signed a share transfer agreement with Allianz SE ("Allianz") on March 26, 2013 for the sale of its 7,548,164,112 shares with a notional amount of full TL 75,481,641.12 representing 74.01% of its shares in Yapı Kredi Sigorta ("YKS") for full TL 1,410,079,178 (Insurance Company). As at June 30, 2013 as the ownership and control belongs to the Parent Bank, the YKS investment is classified as "Non current assets and disposal groups classified as held for sale" in the accompanying consolidated financial statements. The transfer of shares has been completed on July 12, 2013. Therefore, as at June 30, 2013, in accordance with IFRS 5,, YKS's consolidated assets and liabilities are classified in "Non current assets and disposal groups classified as held for sale" and "Liabilities included in disposal groups classified as held for sale " respectively in the accompanying consolidated financial position and the results of its operations are classified as "Total profit or loss from discontinued operations net of taxes" in the accompanying consolidated income statement.

The Parent Bank has decided to cancel the signed agreement to sell its shares in Yapı Kredi B Tipi Yatırım Ortaklığı A.Ş. ("YKYO") (previously decided in accordance with the Board of Directors decision dated September 28, 2012) in accordance with the Board of Directors decision dated June 7, 2013. With the same decision, the Parent Bank also decided to liquidate the company and within the content to enable to start the liquidation process decided to buy the remaining shares of YKYO through a call in accordance with CMB decree series IV numbered 44. As of the date of these financial statements, total shareholding of the Parent Bank increased to 95.36%.

The Parent Bank has signed a share purchase agreement with YKS for the purchase (either by the Bank or any of the consolidated subsidiary of the Bank) of 115.574.715 shares with a nominal value of TL full 11,557,471.5 which represents 19.93% shares of Yapı Kredi Emeklilik A.Ş. (YKE) for TL full 188,107,812. YKE is owned by YKS, thus it was under common control of the Parent Bank. Based on this agreement; it was decided to purchase these shares through Yapı Kredi Finansal Kiralama A.O., a consolidated subsidiary of the Parent Bank. The share transfer is completed on July 12, 2013.

According to the IFRS 5, the consolidated income statement as of June 30, 2012 has been restated in order to present comparative information relating to discontinued operations summarized in the table below.

June 30, 2012	Published	Adjustment	Restated
Interest income	4,978,797	(22,248)	4,956,549
Interest expense	(2,944,919)	(54)	(2,944,973)
Net interest income	2,033,878	(22,302)	2,011,576
Fee and commission income	1,116,027	(65,609)	1,050,418
Fee and commission expense	(288,135)	59,505	(228,630)
Net fee and commission income	827,892	(6,104)	821,788
Foreign exchange gains, net	67,412	(431)	66,981
Net trading, hedging and fair value income	(42,146)	(332)	(42,478)
Gains / losses from investment securities, net	83,327	-	83,327
Insurance technical income, net	104,819	(104,819)	-
Other operating income	31,798	(713)	31,085
Operating income	3,106,980	(134,701)	2,972,279
Impairment losses on loans and credit related commitments, net	(338,156)	-	(338,156)
Provision for retirement benefit obligations	(45,566)	1,912	(43,654)
Other provisions	(92,175)	(76)	(92,251)
Other operating expenses	(1,397,612)	87,013	(1,310,599)
Operating profit	1,233,471	(45,852)	1,187,619
Share of profit of associate	7,025	-	7,025
Profit before income tax	1,240,496	(45,852)	1,194,644
Income tax expense	(257,612)	9,549	(248,063)
Total profit or loss from discontinued operations net of taxes	-	36,303	36,303

5. 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.);

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

5. Financial risk management (continued)

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

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

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

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

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

	June 30, 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	1,991,952	60,212	124,794	2,176,958	2,225,001
Consumer	816,182	686,547	409,766	1,912,495	1,218,033
Credit cards	638,623	208,051	90,741	937,415	853,704
Leasing	5,415	2,248	18,841	26,504	23,534
Factoring	491,785	131,295	17,920	641,000	547,667
	3,943,957	**1,088,35**	**662,062**	**5,694,372**	**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.

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.

5. Financial risk management (continued)

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 5). 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.

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.

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

5. Financial risk management (continued)

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

June 30, 2013

	Foreign currency			
	USD	EUR	Other	Total
Assets				
Cash and balances with central banks	6,110,166	4,445,703	2,428,982	12,984,851
Loans and advances to banks	2,286,774	885,741	470,752	3,643,267
Financial assets held for trading				
- Trading securities	33,589	4,040	-	37,629
- Derivative financial instruments	86,356	17,544	271	104,171
Loans and advances to customers	22,497,135	12,450,695	925,425	35,873,255
Hedging derivatives	2,609	-	-	2,609
Investment securities				
- Available-for-sale	5,841,978	411,306	38,329	6,291,613
- Held-to-maturity	2,519,419	221,370	-	2,740,789
Investment in associates and joint ventures	-	-	214,308	214,308
Goodwill	-	-	-	-
Other intangible assets	-	116	6,932	7,048
Property and equipment	-	1,267	37,714	38,981
Deferred income tax assets	-	5,545	651	6,196
Other assets	548,415	346,230	92,865	987,510
Non current assets and disposal groups classified as held for sale	235,045	87,288	311	322,644
Total assets	**40,161,486**	**18,876,845**	**4,216,540**	**63,254,871**
Liabilities				
Deposits from banks	5,427,031	543,999	27,773	5,998,803
Customer deposits	17,450,470	12,533,252	1,934,837	31,918,559
Funds borrowed	7,346,880	10,431,651	133,709	17,912,240
Debt securities in issue	4,662,847	782,251	-	5,445,098
Derivative financial instruments	85,490	12,931	256	98,677
Current income taxes payable	-	3,092	-	3,092
Deferred income tax liabilities	-	-	-	-
Hedging derivatives	293,060	81,020	-	374,080
Other provisions	-	108	243	351
Retirement benefit obligations	-	12,282	-	12,282
Insurance technical reserves	-	-	-	-
Other liabilities	1,126,760	1,008,980	28,605	2,164,345
Liabilities included in disposal groups classified as held for sale	231,025	79,445	122	310,592
Total liabilities	**36,623,563**	**25,489,011**	**2,125,545**	**64,238,119**
Net balance sheet position	**3,537,923**	**(6,612,166)**	**2,090,995**	**(983,248)**
Off-balance sheet derivative instruments net notional position	(3,688,073)	7,568,983	(2,085,923)	1,794,987
Net foreign currency position	**(150,150)**	**956,817**	**5,072**	**811,739**

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

5. 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	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
Goodwill	-	-	-	-
Other intangible assets	-	-	7,427	7,427
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**	**3,547,004**	**54,875,626**
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)**	**1,318,294**	**(1,759,537)**
Off-balance sheet derivative instruments net notional position	(2,450,573)	6,793,461	(1,125,486)	3,217,402
Net foreign currency position	**1,055,765**	**209,292**	**192,808**	**1,457,865**

At June 30, 2013, monetary assets and liabilities denominated in foreign currency were translated into TL using a foreign exchange rate of TL 1.9248 = USD 1, and TL 2.5137 = EUR1 (December 31, 2012 - TL 1.7380 = USD 1, and TL 2.2929 = EUR1). Non-monetary assets and liabilities denominated in foreign currency were translated into TL using FX rates at the date of the transaction.

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

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

5. Financial risk management (continued)

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.

The table below summarizes the Group's exposure to interest rate risk at June 30, 2013 and December 31, 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.

June 30, 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	-	-	-	-	15,781,049	15,781,049
Loans and advances to banks	3,425,981	341,046	52,516	1,137	2,013,227	5,833,907
Financial assets held for trading						
- Trading securities	20,698	58,215	44,017	49,378	51,628	223,936
- Derivative financial instruments	423,119	309,337	65,122	577	-	798,155
Loans and advances to customers	41,160,700	25,555,257	17,561,418	5,126,780	3,297,040	92,701,195
Hedging derivatives	186,571	96,539	-	-	-	283,110
Investment securities						
- Available-for-sale	2,651,430	3,001,769	3,154,750	5,519,317	38,149	14,365,415
- Held-to-maturity	2,021,262	1,083,619	268,092	2,648,858	-	6,021,831
Investment in associates and joint ventures	-	-	-	-	225,282	225,282
Goodwill	-	-	-	-	1,023,528	1,023,528
Other intangible assets	-	-	-	-	362,635	362,635
Property and equipment	-	-	-	-	981,689	981,689
Deferred income tax assets	-	-	-	-	375,642	375,642
Other assets	-	-	-	-	1,969,206	1,969,206
Non current assets and disposal groups classified as held for sale	375,200	150,699	284,260	170,082	697,893	1,678,134
Total assets	**50,264,961**	**30,596,481**	**21,430,175**	**13,516,129**	**26,816,968**	**142,624,714**
Liabilities						
Deposits from banks	7,977,825	584,842	35,196	-	142,542	8,740,405
Customer deposits	58,661,046	4,522,437	748,477	7,025	12,462,829	76,401,814
Funds borrowed	11,920,938	5,764,029	2,384,621	647,344	2,109	20,719,041
Debt securities in issue	1,837,571	1,437,239	947,170	2,890,482	-	7,112,462
Derivative financial instruments	250,866	178,237	39,528	3,341	-	471,972
Current income taxes payable	-	-	-	-	44,152	44,152
Hedging derivatives	348,139	119,519	-	-	-	467,658
Other provisions	-	-	-	-	663,483	663,483
Retirement benefit obligations	-	-	-	-	988,051	988,051
Other liabilities	1,345	5,623	372	2	8,543,334	8,550,676
Liabilities included in disposal groups classified as held for sale	30,611	85,664	288,622	116,132	1,019,623	1,540,652
Total liabilities	**81,028,341**	**12,697,590**	**4,443,986**	**3,664,326**	**23,866,123**	**125,700,366**
Net interest repricing gap (on balance)	**(30,763,380)**	**17,898,891**	**16,986,189**	**9,851,803**	**2,950,845**	**16,924,348**
Off-balance sheet derivative instruments net notional position	19,652,190	(4,034,809)	(14,484,461)	(1,362,879)	-	(229,959)
Net interest repricing gap (net position)	**(11,111,190)**	**13,864,082**	**2,501,728**	**8,488,924**	**2,950,845**	**16,694,389**

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

5. 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 reprising 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.)

5. Financial risk management (continued)

The table below summarises weighted average interest rates for financial instruments by major currencies outstanding at June 30, 2013 and December 31, 2012, based on yearly contractual rates.

	June 30, 2013			December 31, 2012		
	USD (%)	EUR (%)	TL (%)	USD (%)	EUR (%)	TL (%)
Assets						
Cash and balances with central banks	-	0.04	-	-	0.15	-
Loans and advances to banks	1.31	1.21	6.95	2.11	0.77	7.04
Financial assets held for trading	3.85	1.02	5.32	3.80	0.88	6.81
Investment securities						
- Available-for-sale	6.84	5.12	8.57	7.05	4.49	9.20
- Held-to-maturity	5.51	4.47	7.20	5.51	4.68	8.97
Loans and advances to customers	5.60	5.47	12.37	5.29	5.40	12.47
Liabilities						
Deposits from banks	0.99	1.69	5.54	1.50	2.68	6.10
Customer deposits	2.57	2.45	6.88	2.96	2.99	8.33
Debt securities in issue	5.38	5.35	6.69	4.88	2.81	10.40
Funds borrowed	3.38	1.98	7.74	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.

5. 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 affecting 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, the "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.

D. Capital management

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

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

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

5. Financial risk management (continued)

The Group's regulatory capital adequacy position on a consolidated basis at June 30, 2013 and December 31, 2012 was as follows:

	June 30, 2013	December 31, 2012
Tier I capital	15,061,341	13,998,517
Tier II capital	5,537,936	6,013,921
Deductions	(361,212)	(412,372)
Total regulatory capital	20,238,065	19,600,066
Risk-weighted assets (including market and operational risk)	136,916,563	129,018,009
Capital adequacy ratio (%)	**14.78**	**15.19**

E. 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. The major part of the Group's option book activity stems from the clients' needs; therefore to meet the client demands Group actively runs an option book on the residual open positions which are not fully covered. The Group is exposed to credit risk on purchased options only, and only to the extent of their carrying amount, which is their fair value.

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

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

As of June 30, 2013, the Bank's credit derivatives portfolio is composed of "credit linked notes" (embedded derivatives are separated from the 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.

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

5. Financial risk management (continued)

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.

June 30, 2013

	Contract/ notional amount (aggregate of buy and sell)	Assets	Fair values Liabilities
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	11,031,289	85,936	44,690
Currency swaps	33,428,428	363,475	214,184
Over the counter ("OTC") currency options	18,148,498	115,445	107,458
Total OTC foreign exchange derivatives	**62,608,215**	**564,856**	**366,332**
Interest rate derivatives:			
Interest rate swaps	5,356,208	56,000	45,693
Cross-currency interest rate swaps	2,447,701	160,781	41,865
OTC interest rate options	4,262,210	-	7,380
Total OTC interest rate derivatives	**12,066,119**	**216,781**	**94,938**
Other derivatives(1)	**2,332,372**	**16,518**	**10,702**
Total derivative assets/ (liabilities) held for trading	**77,006,706**	**798,155**	**471,972**
Derivatives used for hedging			
Derivatives designated as fair value hedges:			
Cross-currency interest rate swaps	3,216,943	188,201	3,807
Derivatives designated as cash flow hedges:			
Interest rate swaps	36,781,267	94,909	463,851
Total derivative assets/ (liabilities) used for hedging	**39,998,210**	**283,110**	**467,658**
Total recognized derivative assets/ (liabilities)	**117,004,916**	**1,081,265**	**939,630**
Current		732,634	436,438
Non-current		348,631	503,192
Total recognized derivative assets/ (liabilities)	**117,004,916**	**1,081,265**	**939,630**

(1) Other derivatives include credit default swaps and security options. As at June 30, 2013 credit default swaps include insignificant amount of potential exposure to Eurozone sovereign countries.

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

5. Financial risk management (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, 2010, the Group has hedged the possible fair value effects of changes in market interest rates on part of its fixed interest TL mortgage and car loan portfolios and fair value effects of changes in foreign exchange rates on part of its foreign currency denominated deposits using cross-currency interest rate swaps. The net carrying value of hedging derivatives at June 30, 2013 is an asset amounting to TL 184,394 (December 31, 2012 - asset TL 3,763). At June 30, 2013, the marked to market difference of the hedging derivatives since the inception date of the hedge relationship is TL 57,269 (December 31, 2012 - TL 158,581), the fair value difference of the hedged items is TL 67.663 (December 31, 2012 - TL 148,635) and their changes in the fair value for the year amounts to TL (80.972) (December 31, 2012 - TL 41,431).

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

5. Financial risk management (continued)

Cash flow hedges

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

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

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

The net gain / (loss) on cash flow hedges reclassified to the statement of income during the six month period ended June 30, 2013 was as follows:

	June 30, 2013	June 30, 2012
Net interest income / (expense)	(196,933)	(75,073)
Taxation	39,387	15,015

In the first six months of 2013, a loss of TL 301 (June 30, 2012 - TL 1,667) was recognized in the statement of income due to hedge ineffectiveness from cash flow hedges.

As of June 30, 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 224.366 (June 30, 2012 - 422,006).

There were no transactions for which cash flow hedge accounting had to be ceased as of June 30, 2013 or June 30, 2012 as a result of the highly probable cash flows no longer being expected to occur.

Net investment hedges

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

The Group's Euro denominated borrowing is designated as a hedge of the net investment in the Group's certain EUR denominated subsidiaries. The total amount of the borrowing designated as a hedge of the net investment at June 30, 2013 is EUR 266 million (December 31, 2012 - EUR 264 million). The accumulated foreign exchange loss of TL 154,220 (June 30, 2012 - TL 91,682 loss), net of tax, on translation of the borrowing to TL at the statement of financial position date is recognized in "other reserves" in equity.

No ineffectiveness from hedges of net investments in foreign operations was recognized in profit or loss during the period (June 30, 2012 - None).

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

5. Financial risk management (continued)

F. Fair value of financial instruments

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

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

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

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

	June 30, 2013		December 31, 2012	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Loans and advances to banks	5,833,907	5,836,157	8,117,182	8,246,406
Investment securities (held-to-maturity)	6,021,831	6,101,722	5,827,694	6,192,442
Loans and advances to customers	92,701,195	94,281,841	82,776,658	84,380,809
Financial liabilities:				
Deposits from banks	8,740,405	8,741,124	6,242,560	6,251,349
Customer deposits	76,401,814	76,883,956	69,719,691	70,088,772
Funds borrowed	20,719,041	22,648,316	19,399,883	19,520,369
Debt securities in issue	7,112,462	7,159,545	5,691,409	5,757,506

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

Loans and advances to banks

The fair value of overnight deposits is considered to approximate its carrying amount. 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 based on loans with similar credit risk, currency and remaining maturity to determine their fair value.

5. Financial risk management (continued)

Investment securities

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

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

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

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

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 insignificant non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Other trading assets

Other trading assets valued using a valuation technique consists of certain debt securities. The Group values the securities using valuation models which use discounted cash flow analysis which incorporates either only observable data or both observable and insignificant 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.

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

5. Financial risk management (continued)

Other liabilities designated at fair value through profit or loss

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

Determination of fair value and fair value hierarchy:

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

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

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

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

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

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

Assets and liabilities measured at fair value

June 30, 2013	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss				
Financial assets held for trading				
- Debt securities	170,580	1,728	-	172,308
- Equity securities	51,628	-	-	51,628
- Derivatives	-	798,155	-	798,155
Hedging derivatives	-	283,110	-	283,110
Available-for-sale financial assets				
- Investments securities - debt	12,548,836	1,778,430	-	14,327,266
- Investments securities - equity	-	25,724	-	25,724
Total assets	**12,771,044**	**2,887,147**	**-**	**15,658,191**
Financial liabilities at fair value through profit or loss				
- Derivatives	-	471,972	-	471,972
Hedging derivatives	-	467,658	-	467,658
Total liabilities	**-**	**939,630**	**-**	**939,630**

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

5. 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
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**

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

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

June 30, 2013	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss				
Financial assets held for trading				
- Debt securities	48,497	-	-	48,497
- Equity securities	-	-	-	-
- Derivatives	-	-	-	-
Hedging derivatives	-	-	-	-
Available-for-sale financial assets				
- Investments securities - debt	522,466	35,361	-	557,827
- Investments securities - equity	649	-	-	649
Total assets	**571,612**	**35,361**	**-**	**606,973**
Financial liabilities at fair value through profit or loss				
- Derivatives	-	-	-	-
Hedging derivatives	-	-	-	-
Total liabilities	**-**	**-**	**-**	**-**

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

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

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

	June 30, 2013	June 30, 2012
Cash and cash equivalents	1,640,700	1,292,554
Balances with central banks (*)	14,140,349	8,758,938
Reserve deposits with central banks (-)	(11,070,715)	(6,411,052)
Loans and advances to banks (with original maturity less than 90 days) (+)	5,365,766	8,674,302
Other cash equivalents (+)	66,152	130,822
Total	**10,142,252**	**12,445,564**

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

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

Foreign:

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

Reserve requirements of Central Bank of the Russian Federation represent reserve deposits equivalent to 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.

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

7. Financial assets held for trading

	June 30, 2013	December 31, 2012
Government bonds and treasury bills	167,652	493,996
Government bonds and treasury bills sold under repurchase agreements	-	-
Other debt securities	4,656	53,801
Total debt securities	**172,308**	**547,797**
Equity securities - listed	51,628	34,778
Total equity securities	**51,628**	**34,778**
Total securities	**223,936**	**582,575**
Derivative financial instruments	798,155	416,145
Total financial assets held for trading	**1,022,091**	**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. Loans and advances to customers

June 30, 2013

	Corporate	Consumer	Credit cards	Leasing	Factoring	Total
Performing loans	51,674,106	16,339,721	16,777,009	3,172,591	1,620,872	89,584,299
Watch listed loans	1,519,581	813,870	305,930	96,776	95,479	2,831,636
Loans under legal follow - up	1,803,800	687,950	537,134	256,195	68,393	3,353,472
Gross	54,997,487	17,841,541	17,620,073	3,525,562	1,784,744	95,769,407
Specific allowance for impairment	(1,389,657)	(420,828)	(334,860)	(159,250)	(60,249)	(2,364,844)
Collective allowance for impairment	(408,098)	(114,260)	(156,620)	(15,935)	(8,455)	(703,368)
Total allowance for impairment	(1,797,755)	(535,088)	(491,480)	(175,185)	(68,704)	(3,068,212)
Net	53,199,732	17,306,453	17,128,593	3,350,377	1,716,040	92,701,195

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

8. Loans and advances to customers (continued)

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**

Included in the performing loans and advances to consumers, are loans amounting to TL 1,699,955 (at amortized cost) which have been designated as hedged items in fair value hedges as of June 30, 2013 (December 31, 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:

			June 30, 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	294,282	253,530	140,952	30,255	11,344	730,363
Amounts recovered during the year	(23,991)	(172,463)	(39,935)	(12,825)	(1,587)	(250,801)
Loans written off during the year as uncollectible (-) (*)	(17,316)	(1,023)	-	(24)	-	(18,363)
Exchange differences	4,210	1,737	87	(1)	3	6,036
At June 30	**1,797,755**	**535,088**	**491,480**	**175,185**	**68,704**	**3,068,212**

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

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

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

8. Loans and advances to customers (continued)

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

	June 30, 2013	December 31, 2012
Gross investment in direct finance leases	4,021,410	3,685,642
Unearned finance income	(551,987)	(499,425)
	3,469,423	**3,186,217**
Interest accrual on receivables	29,634	26,526
Receivables from outstanding lease payments	26,505	23,534
Provision for impaired lease receivables	(175,185)	(157,780)
Net investment in direct finance leases	**3,350,377**	**3,078,497**

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

	June 30, 2013	December 31, 2012
Less than 1 year	1,361,473	1,240,041
More than 1 year but not later than 5 years	2,143,671	1,916,961
Later than 5 years	219,434	195,999
Less: unearned finance income	(551,987)	(499,425)
Investment in performing lease receivables	**3,172,591**	**2,853,576**

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

9. Investment securities

(i) Securities available-for-sale

	June 30, 2013	December 31, 2012
Debt securities - at fair value:		
Government bonds and treasury bills	5,701,102	5,891,154
Eurobonds	2,032,976	5,272,000
Government and corporate bonds and treasury bills sold under repurchase agreements	877,239	698,990
Eurobonds sold under repurchase agreements	3,562,169	1,940,279
Other	2,153,780	1,829,398
Equity securities - at fair value		
Unlisted	38,149	24,957
Total securities available-for-sale	**14,365,415**	**15,656,778**

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 1,085,588 (December 31, 2012 - TL 1,606,167 net gains). There are no impairments recognized for available-for-sale debt securities.

(ii) Securities held-to-maturity

	June 30, 2013	December 31, 2012
Debt securities - at amortized cost - listed:		
Government bonds and treasury bills	1,723,130	1,588,275
Eurobonds	441,166	1,140,637
Government bonds and treasury bills sold under repurchase agreements	1,586,862	1,727,267
Eurobonds sold under repurchase agreement	2,200,121	1,285,931
Foreign government bonds(1)	70,552	85,584
Total securities held-to-maturity	**6,021,831**	**5,827,694**

(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.

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

10. Non current assets and disposal groups classified as held for sale

The Parent Bank has signed a share transfer agreement with Allianz SE ("Allianz") on March 26, 2013 for the sale of its 7,548,164,112 shares with a notional amount of full TL 75,481,641.12 representing 74.01% of its shares in Yapı Kredi Sigorta ("YKS") for full TL 1,410,079,178 (Insurance Company). As at June 30, 2013 as the ownership and control belongs to the Parent Bank, the YKS investment is classified as "Non current assets and disposal groups classified as held for sale" in the accompanying consolidated financial statements. The transfer of shares has been completed on July 12, 2013. Therefore, as at June 30, 2013, in accordance with IFRS 5, YKS's consolidated assets and liabilities are classified in "Non current assets and disposal groups classified as held for sale" and "Liabilities included in disposal groups classified as held for sale " respectively in the accompanying consolidated financial position and the results of its operations are classified as "Total profit or loss from discontinued operations net of taxes" in the accompanying consolidated income statement.

The Parent Bank has signed a share purchase agreement with YKS for the purchase (either by the Bank or any of the consolidated subsidiary of the Bank) of 115.574.715 shares with a nominal value of TL full 11,557,471.5 which represents 19.93% shares of Yapı Kredi Emeklilik A.Ş. (YKE) for TL full 188,107,812. YKE is owned by YKS, thus it was under common control of the Parent Bank. Based on this agreement; it was decided to purchase these shares through Yapı Kredi Finansal Kiralama A.O., a consolidated subsidiary of the Parent Bank. The share transfer is completed on July 12, 2013.

The financial position and results of the insurance business are, as follows:

Balance sheet	Insurance
Loans and advances to banks	471,778
Financial assets held for trading	
- Trading securities	4,930
- Trading securities pledged as collateral	43,567
Investment securities	
- Available-for-sale	164,856
- Available-for-sale pledged as collateral	393,773
Other intangible assets	20,152
Property and equipment	30,587
Deferred income tax assets	4,660
Other assets	543,831
Non current assets and disposal groups classified as held for sale	**1,678,134**
Current income taxes payable	6,156
Other provisions	1,351
Retirement benefit obligations	11,514
Insurance technical reserves	1,190,385
Other liabilities	331,246
Liabilities included in disposal groups classified as held for sale	**1,540,652**
Net asset value	137,482

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

10. Non current assets and disposal groups classified as held for sale (continued)

	Current Period	Prior Period
Income and expense items	**Insurance**	**Insurance**
Interest income	23,419	22,302
Interest expense	-	-
Net interest income	23,419	22,302
Fee and commission income	77,338	65,609
Fee and commission expense	(71,432)	(59,505)
Net fee and commission income	5,906	6,104
Foreign exchange gains, net	848	431
Net trading, hedging and fair value income	(207)	332
Insurance technical income, net	135,140	104,938
Other operating income	352	594
Operating income	165,458	134,701
Other provisions	(162)	76
Other operating expenses	(102,424)	(88,926)
Operating profit	62,872	45,851
Profit before income tax	62,872	45,851
Income tax expense	(10,009)	(9,548)
Net income from discontinued operations	**52,863**	**36,303**

Earnings per share from discontinued operations:

	June 30, 2013	June 30, 2012
Profit attributable to equity holders of the Parent	52,863	36,303
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)	**0.0001**	**0.0001**

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

11. Deposits from banks

		June 30, 2013			December 31, 2012	
	Demand	Term	Total	Demand	Term	Total
Foreign currency:						
Domestic banks	102	63,410	63,512	84	44,871	44,955
Foreign banks	22,431	780,434	802,865	166,053	731,873	897,926
Funds deposited under repurchase agreements	-	5,132,426	5,132,426	-	3,107,853	3,107,853
	22,533	**5,976,270**	**5,998,803**	**166,137**	**3,884,597**	**4,050,734**
TL:						
Domestic banks	134,915	394,930	529,845	197	260,877	261,074
Foreign banks	32,799	150,528	183,327	148,838	96,488	245,326
Funds deposited under repurchase agreements	-	2,028,430	2,028,430	-	1,685,426	1,685,426
	167,714	**2,573,888**	**2,741,602**	**149,035**	**2,042,791**	**2,191,826**
	190,247	**8,550,158**	**8,740,405**	**315,172**	**5,927,388**	**6,242,560**

12. Customer deposits

		June 30, 2013			December 31, 2012	
	Demand	Term	Total	Demand	Term	Total
Foreign currency deposits:						
Saving deposits	2,534,939	10,861,675	13,396,614	2,521,125	10,872,713	13,393,838
Commercial deposits	3,020,169	15,501,776	18,521,945	3,185,389	12,605,018	15,790,407
	5,555,108	**26,363,451**	**31,918,559**	**5,706,514**	**23,477,731**	**29,184,245**
TL deposits:						
Saving deposits	2,474,673	21,174,026	23,648,699	1,989,253	22,110,472	24,099,725
Commercial deposits	4,177,410	14,774,100	18,951,510	3,156,434	12,372,791	15,529,225
Funds deposited under repurchase agreements		50,795	50,795	-	25,583	25,583
Public sector deposits	255,639	1,576,612	1,832,251	598,082	282,831	880,913
	6,907,722	**37,575,533**	**44,483,255**	**5,743,769**	**34,791,677**	**40,535,446**
	12,462,830	**63,938,984**	**76,401,814**	**11,450,283**	**58,269,408**	**69,719,691**

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

13. Funds borrowed

	June 30, 2013	December 31, 2012
Foreign institutions and banks		
Syndication loans	4,932,814	4,428,844
Subordinated debt	3,787,935	3,450,738
Other	9,523,975	8,775,785
Total foreign	**18,244,724**	**16,655,367**
Domestic banks	834,536	1,089,701
Interbank money market and Settlement Custody Bank	1,639,781	1,654,815
Total domestic	**2,474,317**	**2,744,516**
Total	**20,719,041**	**19,399,883**

At 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 was determined as EURIBOR+2% for the first five years and EURIBOR+3% for the remaining 5 years. The loan was obtained from Merrill Lynch Capital Corporation with UniCredito Italiano S.p.A. as guarantor.

In addition, the subordinated loan obtained by Koçbank on April 27, 2006 amounting to EUR 350 million, with 10 years maturity and a repayment option at the end of 5 years has been transferred to the Bank. The interest rate is determined as EURIBOR+2,25% for the first five years and EURIBOR+3.25% for the remaining 5 years. The loan was obtained from Goldman Sachs International Bank with Unicredit S.p.A. 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 consolidated interim financial statements. In addition, the Parent Bank obtained a subordinated loan on September 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.

With the written approvals of the BRSA dated April 3, 2006, May 2, 2006 and September 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 and Goldman Sachs International Bank are 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 are considered in the supplementary capital calculation at the rate of 60% since the remaining maturity of this loan is less than 4 years.

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

13. Funds borrowed (continued)

Yapı Kredi had early repaid its borrowing for USD 585 million 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 and is approved to be considered as additional capital as stated in the "Regulation on Own Funds of Banks" decree.

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

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

14. Debt securities in issue

The details of YKB's debt securities in issue including diversified payment rights securitization transaction and domestic bonds are as follows:

	June 30, 2013	December 31, 2012
Securitization borrowings	1,587,587	1,641,731
Bills	1,173,498	716,171
Senior debt	2,419,225	1,588,603
Subordinated securities	1,932,152	1,744,904
	7,112,462	**5,691,409**

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

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

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

The Parent Bank has a 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 ("Special Purpose Entity") as an intermediary and Assured Guaranty, MBIA, Radian, Ambac, FGIC and XL Capital as guarantors. The borrowing has floating interest rates based on Euribor/Libor, the maturity is between 2014 and 2015. The repayments commenced in 2010 and during 2013 a total of TL 205.944 was paid (2012 – TL 396.868).

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

14. Debt securities in issue (continued)

The Parent 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 will start 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.

15. Taxation

Consolidated statement of income

	June 30, 2013	June 30, 2012
Current tax expense	(148,544)	(357,429)
Deferred tax income / (expense)	(184,427)	99,817
	(332,971)	**(257,612)**

Deferred income taxes

For all domestic subsidiaries and the Parent Bank, deferred income taxes are calculated on temporary differences that are expected to be realized or settled under the liability method using a principal tax rate of 20% at June 30, 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 June 30, 2013, and 2012 which are as follows:

		Tax rate (%)
Country of incorporation	**June 30, 2013**	**June 30, 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.)

15. Taxation (continued)

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

	Cumulative Temporary Differences		Deferred Tax Asset/Liability	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Impairment on assets	487,589	486,054	59,765	59,458
Allowance for loan impairment	1,152,072	1,164,484	228,561	231,531
Pension benefits transferable to the Social Security Institution ("SSI")	852,207	827,177	170,441	165,435
Reserve for employment termination benefits	135,844	131,780	27,766	26,816
Revaluation of derivative instruments at fair value	945,643	1,299,005	189,758	257,260
Valuation differences on investment securities	87,695	642,440	19,394	128,460
Other	626,297	676,845	125,013	135,149
Deferred income tax assets	**4,287,347**	**5,227,785**	**820,698**	**1,004,109**
Difference between carrying value and tax base of property and equipment	614,687	638,237	74,716	79,425
Valuation differences on investment securities	555,231	1,888,338	111,046	377,318
Revaluation of derivative instruments at fair value	1,240,027	767,365	246,801	146,480
Other	126,392	129,799	12,493	33,983
Deferred income tax liabilities	**2,536,337**	**3,423,739**	**445,056**	**637,206**
Deferred income tax assets, net	**1,751,010**	**1,804,046**	**375,642**	**366,903**

16. Other provisions

	June 30, 2013	December 31, 2012
Provision for losses on credit related commitments	279,111	256,754
Tax and other legal provisions	189,288	186,317
Provisions for credit cards and promotion campaigns	29,518	36,708
Provision for export commitment estimated liability	39,476	38,106
Other	126,090	164,134
	663,483	**682,019**

Credit related commitments provision

The Group management has estimated losses that may arise from credit related commitments and has recognized a provision of TL 279,111 (December 2012 - TL 256,754).

Tax and other legal provisions

The Group has recorded a provision of TL 50,665 (December 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 cash outflows from ongoing litigations resulting are not probable.

The Group also recorded total provisions of TL 138,623 (December 2012 - TL 137,574) against potential tax risks in the form of possible tax duties and penalties in the consolidated financial statements for the six-month period ended June 30, 2013.

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

16. Other provisions (continued)

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 a provision of TL 39,476 (December 2012 - TL 38,106).

Movements in other provisions are as follows:

	Provision for credit related commitments	Tax and other legal provisions	Provisions on credit cards and promotion campaigns	Export commitment provisions	Other	June 30, 2013 Total	June 30, 2012 Total
At January 1	**256,754**	**186,317**	**36,708**	**38,106**	**164,134**	**682,019**	**465,837**
Provision charged	22,374	21,916	71,773	1,370	5,779	123,212	101,768
Provision used	-	(18,944)	(78,963)	-	(43,549)	(141,456)	(75,411)
Translation difference	(17)	(1)	-	-	(274)	(292)	(1,546)
Balance at June 30	**279,111**	**189,288**	**29,518**	**39,476**	**126,090**	**663,483**	**490,648**

In addition, as a result of the investigation of the Turkish Competition Board initiated on some banks including the Bank to determine whether there is a violation of the 4th article of the Protection of Competition Law No. 4054, an administrative fine amounting to TL 149,961 was imposed against the Bank in accordance with the decision of Competition Board numbered 13-13/198-100 dated March 8, 2013.

In accordance with the Article 17 of the Law on Crime no. 5326, it is possible to pay only 75% of such administrative fine amounting to TL 112,471 in thirty days following the notification of the decision. The Bank has provided the necessary provisions in the accompanying consolidated financial statements. The amount of administrative fine amounting to TL 112,471 has been paid on August 14, 2013.

17. Retained earnings and other reserves

	June 30, 2013	December 31, 2012
Statutory reserve	463,810	359,872
Translation reserves	303,303	211,065
Revaluation reserve - available-for-sale investments	439,528	1,524,900
Hedging reserves	(378,585)	(668,087)
Total other reserves	**828,056**	**1,427,750**
Retained earnings	**11,211,561**	**10,232,299**

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

17. Retained earnings and other reserves (continued)

Movements in other reserves were as follows:

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

	Statutory reserves	Revaluation reserves	Translation reserves	Hedging reserves	Total
At January 1, 2012	**266,998**	**(80,672)**	**246,166**	**(431,848)**	**644**
Net change in available-for-sale investments, net of tax	-	160,754	-	-	160,754
Gains on hedges of a net investment in a foreign operation	-	-	-	31,635	31,635
Losses on cash flow hedges	-	-	-	(113,477)	(113,477)
Currency translation differences	-	-	(65,307)	-	(65,307)
Transfer to statutory reserves	92,874	-	-	-	92,874
At June 30, 2012	**359,872**	**80,082**	**180,859**	**(513,690)**	**107,123**

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

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

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

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

The Group's share in the total statutory reserves and extraordinary reserves of the Bank and the consolidated subsidiaries amounting to TL 699,643 (June 30, 2012 - TL 630,979) and TL 8,893,249 (June 30, 2012 - TL 7,224,739), respectively, have been presented under retained earnings.

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

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

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

	June 30, 2013	June 30, 2012
Foreign exchange:		
- Transaction gains less losses on derivatives and securities	(544,520)	97,736
Interest rate instruments	532,416	(147,666)
Equities	41	-
Credit derivatives	(3,930)	7,452
Net trading, hedging and fair value losses	**(15,993)**	**(42,478)**

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 318,302 (2012 - TL 83,327 gains) comprise net results on disposals of investment securities.

19. Other operating expenses

	June 30, 2013	June 30, 2012
Staff costs	**(747,871)**	**(696,783)**
Depreciation on property and equipment	(83,359)	(79,007)
Amortization of intangible assets	(38,176)	(32,008)
Depreciation and amortization	**(121,535)**	**(111,015)**
Rent expenses	(90,738)	(80,292)
Sundry taxes and duties	(50,097)	(43,644)
Communication expenses	(54,351)	(46,420)
Marketing and advertisement costs	(53,169)	(43,995)
Payment to Saving Deposit Insurance Fund	(52,798)	(39,192)
Utilities expenses	(22,896)	(20,822)
Audit and consultancy fees	(21,600)	(15,635)
Repair and maintenance expenses	(29,482)	(24,073)
Charities	(521)	(739)
Other	(224,520)	(187,989)
General and administrative expenses	**(600,172)**	**(502,801)**
Total	**(1,469,578)**	**(1,310,599)**

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

20. 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 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 June 30, 2013 (2012 - none).

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

	June 30, 2013	June 30, 2012
Profit attributable to equity holders of the Parent	1,383,274	977,811
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)	**3.18**	**2.25**

21. Assets pledged and restricted

	June 30, 2013		December 31, 2012	
	Assets	**Related liability**	**Assets**	**Related liability**
Trading securities	-	-	43,171	-
Investment securities	10,709,378	7,392,982	8,745,061	4,982,881
Other assets pledged [1]	594,461	-	757,275	-
Total	**11,303,839**	**7,392,982**	**9,545,507**	**4,982,881**

The Group has the following assets pledged as collateral:

(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 8,471,871 as of June 30, 2013 (December 31, 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 7,392,982 as of June 30, 2013 (December 31, 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.

21. Assets pledged and restricted (continued)

Securities are also pledged to regulatory authorities for legal requirements and other financial institutions as a guarantee for stock exchange and money market operations. These are mainly the CBRT, Istanbul Stock Exchange (ISE) Settlement and Custody Bank and other financial institutions and amount to TL 2,264,393 (December 31, 2012 - TL 2,929,175).

As of June 30, 2013, the Group's reserve deposits that are not available for unrestricted use, including those at foreign central banks, amount to TL 13,943,387 (December 31, 2012 - TL 9,591,473). There is also TL 110,699 (December 31, 2012 - TL 130,669) held in blocked foreign bank accounts.

22. 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 16).

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

Credit related commitments

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

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

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

As of June 30, 2013 the Group's commitments for unused credit card limits amounted to TL 20,490,975 (December 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.

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

22. Commitments and contingent liabilities (continued)

June 30, 2013 [1]	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letters of credit	4,027,474	2,227,351	5,572	-	6,260,397
Letters of guarantee	13,225,222	6,346,905	4,159,241	104,437	23,835,805
Acceptance credits	117,258	-	-	-	117,258
Other commitments	271,274	1,815,801	74,861	190,083	2,352,019
Total	**17,641,228**	**10,390,057**	**4,239,674**	**294,520**	**32,565,479**

December 31, 2012 [1]	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letters of credit	3,369,154	2,204,127	210,644	-	5,783,925
Letters of guarantee	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.

23. Segment analysis

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

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

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

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

23. Segment analysis (continued)

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 traded on domestic futures exchange (VOB) and international markets, personal loans, foreign exchange, gold and equity trading, pension plans, insurance products and 7/24 safe deposit boxes and e-banking services. Also, personal art advisory, inheritance advisory, real estate advisory, tax advisory and philanthropic advisory are offered within the Private Banking and Wealth Management activities.

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

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

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

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

June 30, 2013	Retail banking	Corporate banking Commercial banking	Private banking wealth management	Foreign operations	Domestic operations	Insurance	Treasury, asset liability man. & Other(1)	Consolidation adjustments(2)	Group
Segment revenue(3)	1,621,721	826,637	76,116	85,017	206,073	155,630	1,040,943	(227,348)	3,784,789
Segment expenses(3)	(1,278,972)	(242,412)	(35,183)	(43,363)	(87,408)	(106,054)	(468,646)	143,227	(2,118,811)
Segment result	342,749	584,225	40,933	41,654	118,665	49,576	572,297	(84,121)	1,665,978
Operating profit	**342,749**	**584,225**	**40,933**	**41,654**	**118,665**	**49,576**	**572,297**	**(84,121)**	**1,665,978**
Share of results of associates and joint ventures							113		113
Profit before tax	**342,749**	**584,225**	**40,933**	**41,654**	**118,665**	**49,576**	**572,410**	**(84,121)**	**1,666,091**
Income tax expense							(332,971)		(332,971)
Total profit or loss from discontinued operations net of taxes						39,569		13,294	52,863
Profit for the year(3)	**342,749**	**584,225**	**40,933**	**41,654**	**118,665**	**89,145**	**239,439**	**(70,827)**	**1,385,983**
June 30, 2013									
Segment assets(3)	42,531,664	34,459,090	176,881	5,074,679	8,025,019		51,543,928	(1,089,963)	140,721,298
Associates and joint ventures							225,282		225,282
Non current assets and disposal groups classified as held for sale						2,044,518		(366,384)	1,678,134
Total assets	**42,531,664**	**34,459,090**	**176,881**	**5,074,679**	**8,025,019**	**2,044,518**	**51,769,210**	**(1,456,347)**	**142,624,714**
Segment liabilities(3)	30,500,291	29,484,727	16,280,822	4,115,460	6,511,002	-	55,863,952	(1,672,192)	141,084,062
Liabilities included in disposal groups classified as held for sale						1,567,441		(26,789)	1,540,652
Total liabilities	**30,500,291**	**29,484,727**	**16,280,822**	**4,115,460**	**6,511,002**	**1,567,441**	**55,863,952**	**(1,698,981)**	**142,624,714**

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

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

23. Segment analysis (continued)

June 30, 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)]	1,363,102	788,054	62,039	82,906	216,522	139,299	696,746	(376,389)	2,972,279
Segment expenses[(3)]	(1,075,578)	(161,842)	(34,181)	(31,424)	(99,817)	(91,786)	(413,627)	123,595	(1,784,660)
Segment result	287,524	626,212	27,858	51,482	116,705	47,513	283,119	(252,794)	1,187,619
Operating profit	**287,524**	**626,212**	**27,858**	**51,482**	**116,705**	**47,513**	**283,119**	**(252,794)**	**1,187,619**
Share of results of associates and joint ventures							7,025		7,025
Profit before tax	**287,524**	**626,212**	**27,858**	**51,482**	**116,705**	**47,513**	**290,144**	**(252,794)**	**1,194,644**
Income tax expense							(248,063)		(248,063)
Share of results of associates and joint ventures						37,964		(1,661)	36,303
Profit for the year[(3)]	**287,524**	**626,212**	**27,858**	**51,482**	**116,705**	**85,477**	**42,081**	**(254,455)**	**982,884**
June 30, 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.
(4) Income statement figures represent balances for the 6 months period ended June 30, 2012.

24. Related party transactions

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

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

(i) Balances with related parties:

	June 30, 2013			
	Parent	Other[(1)]	Key management	Total
Loans and advances to customers, net	248,103	1,965,063	92	2,213,258
Trading and investment securities	-	26,957	-	26,957
Derivative financial instruments	-	2,451	-	2,451
Loans and advances to banks	31,132	56,470	-	87,602
Other assets	2,173	819	-	2,992
Total assets	**281,408**	**2,051,760**	**92**	**2,333,260**
Customer deposits	6,852,912	4,622,900	101,300	11,577,112
Funds borrowed	4,423,999	1,702,576	-	6,126,575
Derivative financial instruments	362	2,267	-	2,629
Other liabilities	1,957	204	-	2,161
Deposits from banks	512,223	8,295	-	520,518
Total liabilities	**11,791,453**	**6,336,242**	**101,300**	**18,228,995**
Commitment under derivative instruments	403,609	568,557	-	972,166
Credit related commitments	222,912	1,481,526	-	1,704,438
Total commitments and contingent liabilities	**626,521**	**2,050,083**	**-**	**2,676,604**

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

24. Related party transactions (continued)

	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.

(ii) Transactions with related parties:

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

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

24. Related party transactions (continued)

	June 30, 2012			
	Parent	Other[1]	Key management	Total
Interest income on loans and advances to customers	1,799	36,323	1	38,123
Fee and commission income	3,463	9,946	-	13,409
Interest income on financial leases	-	642	-	642
Interest income on loans and advances to banks	-	-		-
Other operating income	12,063	11,631	-	23,694
Total interest and fee income	**17,325**	**58,542**	**1**	**75,868**
Interest expense on deposits	(150,334)	(93,991)	(159)	(244,484)
Interest expense on funds borrowed	(24,883)	(99,679)	-	(124,562)
Other operating expense	(5,682)	-	-	(5,682)
Fee and commission expense	(2)	(2)	-	(4)
Total interest and fee expense	**(180,901)**	**(193,672)**	**(159)**	**(374,732)**

(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 26,508 as of June 30, 2013 (June 30, 2012 - TL 21,954).

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

25. Post balance sheet events

1) The Parent Bank obtained two tranches of securitization borrowing through a diversified payment rights program for EUR 115m and USD 355m respectively, equivalent to USD 505m in total with maturities of 5 and 13 years, respectively.

2) In the public announcement dated July 16, 2013 on behalf of Allianz SE, it was announced that in accordance with the Communiqué on Principles Regarding the Collection of Shares (Serial: IV, No:44), an obligation emerged for Allianz SE to make a mandatory tender offer for the remaining shares of Yapı Kredi Sigorta A.Ş., a mandatory call to CMB was made on July 22, 2013.