Odea Bank A.Ş.

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

Independent auditor's report

To the Board of Directors of Odea Bank A.Ş.

We have audited the accompanying financial statements of Odea Bank A.Ş. (the Bank), which comprise the statement of financial position as at December 31, 2013 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the unconsolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

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

Fatma Ebru Yücel
Partner in Charge

İstanbul
April 30, 2014

Odea Bank A.Ş.

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Statement of financial position
as at December 31, 2013
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	December 31, 2013	December 31, 2012
Assets			
Cash and balances with central banks	5	1.777.178	409.777
Due from banks	6	1.226.774	387.412
Money market placements	6	460.098	935.738
Financial assets at fair value through profit or loss		*101.183*	*5.611*
- Financial assets held for trading	7	2.610	-
- Derivative financial instruments	7-8	98.573	5.611
Loans and advances to customers	9	11.317.859	1.731.688
Investment securities	10	*942.532*	*78.132*
- Available-for-sale	10	942.532	78.132
- Held-to-maturity		-	-
Other intangible assets	11	48.246	17.790
Property and equipment	12	104.438	41.342
Deferred income tax assets	16	23.452	1.677
Other assets	13	86.628	25.012
Total assets		**16.088.388**	**3.634.179**
Liabilities			
Customer deposits	14	12.371.958	2.517.146
Debt securities and other funds borrowed	15	1.806.582	538.791
Funds obtained under repurchase agreements	15	221.454	-
Derivative financial instruments	8	103.355	4.390
Income taxes payable	16	-	1.149
Employee benefit obligations	17	28.143	14.909
Other liabilities and accrued expenses	18	155.332	25.491
Total liabilities		**14.686.824**	**3.101.876**
Equity			
Share capital	19	1.496.150	533.520
Other reserves	20	(8.546)	(133)
Retained earnings		(86.040)	(1.084)
Total equity		**1.401.564**	**532.303**
Total liabilities and equity		**16.088.388**	**3.634.179**

The accompanying notes set out on pages 6 to 56 form an integral part of these financial statements.

Odea Bank A.Ş.

Statement of income
For the year ended December 31, 2013
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	December 31, 2013	March 15-December 31, 2012
Interest income	21	711.370	44.145
Interest expense	21	(541.248)	(12.518)
Net interest income		**170.122**	**31.627**
Fee and commission income	22	15.194	5.407
Fee and commission expense	22	(7.519)	(127)
Net fee and commission income		**7.675**	**5.280**
Net provisions for credit losses	9	(35.369)	-
Foreign exchange gains, net	23	(34.678)	21.742
Net trading and fair value income / (loss)	23	44.052	2.875
Gains from investment securities, net	23	1.080	305
Other Operating Income		17	-
Operating income		**152.899**	**61.829**
Other operating expenses	24	(259.010)	(63.074)
Operating profit/(loss)		**(106.111)**	**(1.245)**
Profit/(loss) before income tax		**(106.111)**	**(1.245)**
Current income tax credit/(expense)	16	1.483	(1.516)
Deferred tax income	16	19.672	1.677
Profit/(Loss) for the year		**(84.956)**	**(1.084)**

The accompanying notes set out on pages 6 to 56 form an integral part of these financial statements.

Odea Bank A.Ş.

Statement of comprehensive income
For the year ended December 31, 2013
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	December 31, 2013	March 15 – December 31, 2012
Profit/(Loss) for the year		**(84.956)**	**(1.084)**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		-	-
Net gains / (losses) on available-for-sale financial assets		**-**	**-**
- Unrealised net gains / (losses) arising during the year, before tax		(11.283)	(166)
- Net amount reclassified to the statement of income, before tax		767	-
Net investment hedges		**-**	**-**
- Net gains (losses) arising on hedges recognized in other comprehensive income, before tax		-	-
- Net amount reclassified to the statement of income, before tax		-	-
Cash flow hedges		**-**	**-**
- Net losses arising on hedges recognized in other		-	-
comprehensive income, before tax		-	-
- Net amount reclassified to the statement of income, before tax		-	-
Income tax relating to components of other comprehensive income	16	**2.103**	**33**
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**(8.413)**	**(133)**
Total comprehensive income/loss for the year		**(93.369)**	**(1.217)**

The accompanying notes set out on pages 6 to 56 form an integral part of these financial statements.

Odea Bank A.Ş.

Statement of changes in equity
For the year ended December 31, 2013
(Amounts expressed in thousands of TL unless otherwise indicated.)

	Note	Share capital	Retained Earnings (Note 28)	Other reserves (Note 28)	Total equity
Balance at March 15, 2012		**-**	**-**	**-**	-
Total comprehensive income/(loss) for the year		-	(1.084)	(133)-	**(1.217)**
Capital increase in cash	19	533.520	-	-	**533.520**
Balance at December 31, 2012		**533.520**	**(1.084)**	**(133)**	**532.303**
Total comprehensive income/(loss) for the year		-	(84.956)	(8.413)	**(93.369)**
Capital increase in cash	19	962.630	-	-	**962.630**
Balance at December 31, 2013		**1.496.150**	**(86.040)**	**(8.546)**	**1.401.564**

The accompanying notes set out on pages 6 to 56 form an integral part of these financial statements.

Odea Bank A.Ş.

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

	Note	December 31, 2013	March 15 - December 31, 2012
Cash flows from operating activities			
Net profit/(loss)		(84.956)	(1.084)
Adjustments for:			
Amortization of other intangible assets	11	6.939	1.118
Depreciation of property and equipment	12	10.798	2.559
Provision for current and deferred income taxes		-	-
Other employee benefits	18	(27.294)	(14.909)
Interest accrual		192.896	(3.961)
Cash flows from operating profits before changes in operating assets and liabilities		**98.383**	**(16.277)**
Changes in operating assets and liabilities:			
Net decrease / (increase) in due from banks and cash balances with central banks		(1.483.684)	(134.956)
Net decrease / (increase) in financial assets through profit or loss		(3.354)	(1.221)
Net decrease / (increase) in loans and advances to customers		(9.338.235)	(1.728.006)
Net (increase) / decrease in other assets		(76.299)	(29.007)
Net (decrease) / increase in customer deposits		9.494.701	2.508.513
Net increase / (decrease) in other liabilities and provisions		170.575	46.660
Net increase / decrease in other borrowed funds		1.023.451	-
Other taxes paid		(103.876)	(1.863)
Income taxes paid		-	(1.483)
Net cash from / (used in) operating activities		**(316.721)**	**658.637**
Cash flows from investing activities			
(Purchase of) property and equipment	12	(73.895)	(43.902)
Proceeds from sale of property and equipment		-	-
(Purchase of) intangible assets, net	11	(37.395)	(18.908)
(Purchase of) held-to-maturity securities		-	-
Redemption or sale of held-to-maturity securities		-	-
(Purchase of) available-for-sale securities	10	(924.997)	(77.817)
Sale or redemption of available-for-sale securities	10	78.132	-
Dividends received		-	-
Other, net		-	-
Net (used in) investing activities		**(958.155)**	**(140.627)**
Cash flows from financing activities			
(Repayments of) borrowed funds and debt securities		(565.519)	-
Proceeds from borrowed funds and debt securities		1.026.879	538.487
Capital increase	19	962.630	533.520
Net cash from / (used in) financing activities		**1.423.990**	**1.072.007**
Net increase / (decrease) in cash and cash equivalents		**247.497**	**1.573.740**
Effects of foreign exchange rate changes on cash and cash equivalents		(76.724)	23.421
Cash and cash equivalents at beginning of year	5	1.597.161	-
Cash and cash equivalents at end of year	5	**1.767.934**	**1.597.161**
Operational cash flows from interest:			
Interest paid		**476.355**	**3.581**
Interest received		**404.231**	**37.829**

The accompanying notes set out on pages 6 to 56 form an integral part of these financial statements.

1. General information

Odea Bank A.Ş. (a subsidiary of Bank Audi s.a.l) was established as a deposit bank with USD 300 Million capital with the permission of BRSA numbered 4432 dated October 27, 2011, which was published in the Official Gazette on October 28, 2011, numbered 28098. Odea Bank A.Ş. started its operations in the "foreign banks founded in Turkey" group, by taking operating permission from BRSA numbered 4963 on September 28, 2012, which was published in Official Gazette dated October 2, 2012 numbered 28429.

The Ultimate parent of the Bank is Bank Audi s.a.l.

The Bank is registered in Istanbul, Turkey at the following address: Maslak Mah. Ahi Evran Caddesi Olive Plaza No:11 Şişli/ İstanbul. As of December 31, 2013, the Bank is operating with 37 branches and 1.105 employees.

These financial statements for the year ended December 31, 2013 have been approved for issue by the management on March 4, 2014. Authorised boards of the Bank and other regulatory bodies have the power to amend the statutory financial statements.

2. Summary of significant accounting policies

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

A. Basis of preparation of these financial statements

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

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (“IFRS”) including the International Accounting Standards and Interpretations issued by the International Accounting Standards Board (“IASB”).

The Bank maintains its books of accounts and prepares its statutory financial statements in accordance with the Banking Law and the “Regulation on Accounting Applications for Banks and Safeguarding of Documents” published in the Official Gazette No. 26333 dated 1 November 2006, which refers to Turkish Accounting Standards and Turkish Financial Reporting Standards issued by the Public Oversight Accounting and Auditing Standards Authority,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 and Tax Regulations. Financial statements are derived from statutory financial statements with adjustments and reclassifications for the purpose of fair presentation in accordance with IFRS.

The financial statements are presented in the national currency of the Republic of Turkey the Turkish Lira (“TL”).

2. Summary of significant accounting policies (continued)

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

The accounting policies adopted in preparation of the financial statements as at 31 December 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 1 January 2013. The effects of these standards and interpretations on the Bank's financial position and performance have been disclosed in the related paragraphs.

IFRS 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendment)

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

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

New disclosures have to be provided for all the financial instruments in the balance sheet that have been offset in accordance with IAS 32. Such disclosures also apply to recognised financial instruments that are subject to enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32 The amendment affects disclosures only and did not have any impact on the financial statements of the Bank.

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

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

IAS 19 Employee Benefits (Amended)

Numerous changes or clarifications are made under the amended standard. Among these numerous amendments, the most important changes are removing the corridor mechanism, and recognizing actuarial gain/(loss) under other comprehensive income for defined benefit plans and making the distinction between short-term and other long-term employee benefits based on expected timing of settlement rather than employee entitlement. The impact was not material, therefore the Bank did not recognize the actuarial gain and loss in other comprehensive income.

2. Summary of significant accounting policies (continued)

IAS 27 Separate Financial Statements (Amended)

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

IAS 28 Investments in Associates and Joint Ventures (Amended)

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

IFRS 10 Consolidated Financial Statements

IFRS10 replaces the parts of previously existing, IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. A new definition of control is introduced, which is used to determine which entities are consolidated. This is a principle based standard and require preparers of financial statements to exercise significant judgment. This standard did not have an impact on the financial position or performance of the Bank.

IFRS 11 Joint Arrangements

The standard describes the accounting for joint ventures and joint operations with joint control. Among other changes introduced, under the new standard, proportionate consolidation is not permitted for joint ventures. This standard did not have an impact on the financial position or performance of the Bank.

IFRS 12 Disclosure of Interests 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. The standard affects presentation only and did not have an impact on the disclosures given by the Bank.

IFRS 13 Fair Value Measurement

The new Standard provides guidance on how to measure fair value under IFRS but does not change when an entity is required to use fair value. It is a single source of guidance under IFRS for all fair value measurements. The new standard also brings new disclosure requirements for fair value measurements. The new disclosures are only required for periods beginning after IFRS 13 is adopted. The Bank has presented these disclosures in Note 4.

2. Summary of significant accounting policies (continued)

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

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

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

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

Improvements to IFRSs

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

IAS 1 Financial Statement Presentation:

Clarifies the difference between voluntary additional comparative information and the minimum required comparative information.

IAS 16 Property, Plant and Equipment:

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

IAS 32 Financial Instruments: Presentation:

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

IAS 34 Financial Reporting:

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

2. Summary of significant accounting policies (continued)

Standards issued but not yet effective and not early adopted

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

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

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

IFRS 9 Financial Instruments – Classification and measurement

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

IFRIC Interpretation 21 Levies

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

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

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

2. Summary of significant accounting policies (continued)

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

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

IFRS 10 Consolidated Financial Statements (Amendment)

IFRS 10 is amended to provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss in accordance with IFRS. The amendments are to be applied retrospectively for annual periods beginning on or after 1 January 2014. This amendment will not have any impact on the financial position or performance of the Bank.

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

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

Improvements to IFRSs

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

Annual Improvements to IFRSs – 2010–2012 Cycle

IFRS 2 Share-based Payment:

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

IFRS 3 Business Combinations

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

IFRS 8 Operating Segments

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

2. Summary of significant accounting policies (continued)

Amendment to the Basis for Conclusions on IFRS 13 Fair Value Measurement

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

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

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

IAS 24 Related Party Disclosures

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

Annual Improvements to IFRSs – 2011–2013 Cycle

IFRS 3 Business Combinations

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

IFRS 13 Fair Value Measurement

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

IAS 40 Investment Property

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

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

IAS 19 Defined Benefit Plans: Employee Contributions (Amendment)

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

2. Summary of significant accounting policies (continued)

B. Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

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

C. Related parties

Parties are considered related to the Bank if below conditions are met;

(a) A person or a close member of that person's family is related to a reporting entity if that person:
- (i) has control or joint control over the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:
- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

For the purpose of these unconsolidated financial statements, shareholders, key management personnel and board members, in each case together with their families and companies controlled by/affiliated with them, associated companies and other companies within the Bank Audi Group are considered and referred to as related parties. A number of banking transactions were entered into with related parties in the normal course of business.

2. Summary of significant accounting policies (continued)

D. Due from other banks

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

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

Trading securities are securities which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio with a pattern of short-term profit taking.

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

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

F. Investment securities

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

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

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

Held to maturity investments are initially recorded at fair value which is the cash consideration paid including transactions costs. After initial recognition held to maturity investments are measured at amortized cost by using effective interest rate less impairment losses, if any.

Available for sale financial assets include all securities other than loans and receivables, securities held to maturity and securities held for trading.

2. Summary of significant accounting policies (continued)

G. Repurchase and reverse repurchase agreements

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

Securities purchased under agreements to resell ("reverse repos") are recorded as money market placements. The difference between sale and repurchase price is treated as interest and accrued evenly over the life of repo agreements using the effective interest rate method.

H. Loans and advances to customers

Loans are non-derivative financial assets which have fixed or determinable payments and are not traded.

The Bank initially records loans and receivables at fair value including the related transaction costs and subsequently measures at amortised cost less any provision for loan losses.

Foreign currency indexed loans are converted into TL from the foreign currency rate as of the opening date and followed in TL accounts. Repayments are measured with the foreign currency rate at the payment date, the foreign currency gains and losses are reflected to the statement of income.

I. Impairment of financial assets

At each balance sheet date, the Bank evaluates the carrying amounts of its financial asset or a group of financial assets to determine whether there is an objective indication that those assets have suffered an impairment loss. If any such indication exists, the Bank determines the related impairment.

The Bank has started to grant loans to its customers since October 2012. The Bank has started to provide specific and collective provisions in 2013. The Bank reviews its loan portfolio to assess impairment at least on monthly basis. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and individual loans. All loans with principal and/or interest overdue for more than 90 days are considered as impaired and individually assessed. Other evidence for impairment may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank.

Impairment and uncollectability are measured and recognized individually for loans and receivables that are individually significant, and on a portfolio basis for a group of similar loans and receivables that are not individually identified as impaired.

2. Summary of significant accounting policies (continued)

J. Derivative financial instruments

The Bank's derivative instruments consist of options, foreign currency and interest swaps and forward foreign currency buy/sell transactions. Derivative instruments are accounted for at their fair values as of the contract date and subsequently valued at fair value. Certain derivative instruments, although economical hedges, are accounted as trading transactions since they are not qualified to be a hedging instrument as per "Financial Instruments: Recognition and Measurement" ("IAS 39"). There are no embedded derivatives separated from the host contract or that are designated as hedging instruments as of the balance sheet date.

Interest income and expenses on swap transactions are presented in interest income or expense (December 31, 2012: None).

K. Property and equipment

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

Buildings	50 years
Safety box	50 years
ATM	10 years
Furniture and fixtures and motor vehicles	5 years
Office equipment	4 years

Gain or loss resulting from disposals of the property and equipment is reflected to the income statement as the difference between the net proceeds and net book value.

Normal maintenance and repair cost of the properties are expensed.

There is no pledge, mortgage or any other lien on property and equipment.

L. Other intangible assets

Other intangible assets are accounted for at cost less accumulated amortization. Other intangible assets are amortized with straight-line method based on their economic lives.

As of the balance sheet date, all softwares are purchased and there are no completed or continuing software development projects by the Bank internally.

M. Accounting for leases as lessee

Tangible fixed assets acquired by financial leases are accounted for in accordance with IAS 17. In accordance with this standard, the leasing transactions, which consist only foreign currency liabilities, are translated to Turkish Lira with the exchange rates prevailing at the transaction dates and they are recorded as an asset or a liability. The foreign currency liabilities are translated to Turkish Lira (TL) with the Bank's period end exchange rates. The increases/decreases resulting from the differences in the foreign exchange rates are recorded as expense/income in the relevant period. The financing cost resulting from leasing is distributed through the lease period to form a fixed interest rate.

2. Summary of significant accounting policies (continued)

In addition to the interest expense, the Bank records depreciation expense for the depreciable leased assets in each period.

Operating lease payments are recognized as expense in the income statement on a straight line basis over the lease term. As of December 31, 2013 the Bank has operational lease agreements for some of its branches and rent expense for them is amounting to TL 23.151.

As of the balance sheet date, the Bank does not have authorization for any financial leasing transactions as lessor.

N. Financial liabilities

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

O. Income taxes

(i) Current income tax

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

Taxes other than on income are recorded within operating expenses (Note 24).

(ii) Deferred income taxes

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

Deferred income tax liabilities and assets are recognized when it is probable that the future economic benefit resulting from the reversal of temporary differences will flow to or from the Bank. Deferred income tax assets resulting from temporary differences, carry forward of unused tax losses and unused tax credits are recognized to the extent that it is probable that future taxable profit will be available against which the deferred income tax asset can be utilized (Note 16).

Deferred tax related to fair value remeasurement of available-for-sale investments, which are recognized in other comprehensive income, is also recognized in the other comprehensive income.

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

2. Summary of significant accounting policies (continued)

P. Retirement benefit obligations

Defined Benefit Plans

In accordance with existing social legislation in Turkey, the Bank is required to make lump-sum termination indemnities over a 30 day salary to each employee who has completed over one year of service, whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Total benefit is calculated in accordance with IAS 19 “InternationalAccounting Standard on Employee Benefits”.

Such benefit plans are unfunded since there is no funding requirement in Turkey. The cost of providing benefits to the employees for the services rendered by them under the defined benefit plan is determined by independent actuaries annually using the projected unit credit method.

The Bank has no retirement fund or foundation that the employees are the member of.

Defined Contribution Plans

The Bank pays contributions to the Social Security Institution of Turkey on a mandatory basis. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due.

Short-term Employee Benefits

In accordance with IAS 19 “International Accounting Standard on Employee Benefits”; the expected cost of accumulating paid absences are measured as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the end of the reporting period.

R. Provisions, contingent assets and contingent liabilities

Provisions are recognized when there is a present obligation due to a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are determined by using the Bank’s best expectation of expenses in fulfilling the obligation, and discounted to present value if material.

As of balance sheet date, there is no case filed against to the Bank where the Bank is assessing as probable to lose.

S. Interest income and expense

Interest income and expenses are recognized in the statement of income on an accrual basis using the effective interest rate method.

T. Fee and commission income and expense

All fees and commission income/expenses are recognized as income at the time of realization and during the period where the service is provided. Loan related fees and commissions paid to or received from the other institutions are considered as an integral part of the effective interest rate of a financial instrument and accounted as accrual basis. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate of the loan. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction.

2. Summary of significant accounting policies (continued)

U. Share capital

(i) Share issue costs

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

(ii) Share premium

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

(iii) Dividends on ordinary shares

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

V. Acceptances

Acceptances are realized simultaneously with the payment dates of the customers and they are presented as probable commitments in off-balance sheet accounts.

AA. Offsetting

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

AB. Cash and cash equivalents

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

AC. Segment reporting

As the Bank is not publicly listed, disclosure requirements as per IFRS 8 that includes segment reporting are not applicable for the Bank.

AD. Earnings per share

As the Bank is not publicly listed, disclosure requirements for earnings per share are not applicable for the Bank.

2. Summary of significant accounting policies (continued)

AE. Comparatives

Comparative figures have been reclassified to conform to changes in presentation in the current year. In order to be consistent with the presentation of financial statements dated 31 December 2013, there are certain reclassifications made on statement of financial position as of 31 December 2012.

As at December 31, 2012, employee benefit obligations amounting to TL 14.909 which was previously booked under other liabilities is presented separately in the statement of financial position.

As at December 31, 2012, money market placements amounting to TL 935.738 which was previously booked under due from banks is presented separately in the statement of financial position.

3. Significant Accounting Judgments, Estimates and Assumptions

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year and the significant judgments (apart from those involving estimations) with the most significant effect on amounts recognized in the financial statements are as follows::

Impairment losses on loans and advances

The Bank has started to grant loans to its customers since October 2012. The Bank reviews its loan portfolios to assess impairment on a continuous basis. According to aging analysis of customers, as of December 31, 2013 the Bank has nonperforming loan customers. Accordingly there is specific provision provided in financial statements. The Bank has also started to provide collective provision over the whole loan portfolio based on internal assumptions by considering the historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. (Note 9)

Fair value of derivatives

Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values. (Note 8)

Tax legislation

Turkish tax legislation is subject to varying interpretations as disclosed in Note 16.

3. Significant Accounting Judgments, Estimates and Assumptions (continued)

Deferred income tax asset recognition

Deferred income tax assets are recorded to the extent that realization of the related tax benefit is probable. The future taxable profits and the amount of tax benefits that are probable in the future are based on medium term business plan prepared by management and extrapolated results thereafter. The business plans are based on management expectations that are believed to be reasonable under the circumstances. (Note 16)

4. Financial risk management

The Bank's Risk Management Unit was established as an independent unit which reports to the Member of Audit Committee who is responsible for the Audit, Internal Control and Risk Management.

Risk management is committed to control processes in order to determine the limits and measurement of operational risks, including the risks comprising of credit, market, interest rate, concentration, counterparty, banking accounts and IT risks.

Risk Management regularly reports to Senior Management and the Audit Committee all the risks the Bank is exposed to and concentrations, and the Bank's own internal limits of the legal limits are monitored daily, weekly, monthly and quarterly. These reports consist of, market risk limits, liquidity and interest rate, credit risk analysis and capital adequacy analysis and daily value at risk (VAR) analysis. These reports are also presented to Asset-Liability Management Committee Audit committee on a monthly basis. Financial instruments in the Bank's portfolio are closely monitored and reported on a daily basis against volatility and market values of market risk instruments.

Monthly scenario analysis on economic capital, capital adequacy, liquidity and profitability scenarios and credit risk on Bank's loan portfolio including benchmark of similar banks are presented to the Audit Committee. Management follows the Bank's performance and the limits by using these detailed reports.

Risk Management Group calculates Basel II capital adequacy calculation, namely Credit Risk, Market Risk and Operational Risk, in accordance with "Regulation on Measurement and Assessment of Capital Adequacy of Bank's" published in the Official Gazette dated June 28, 2012 numbered 28337."

At the Bank, banking processes and policies were established by considering Regulation on the Internal Systems of Banks published in the Official Gazette No. 28337 dated June 28, 2012. Consequently, related procedures/policies are formed and then approved by the Board of Directors at August 2012.

In order to manage operational risks that the Bank is exposed to more effectively and to form an integrated risk management point of view, Operational Risk Policy and IT Continuity Plan was updated.

In order to define, measure, limit and report market risk the Bank is exposed to, Market Risk Policy is formed. When the Bank manages its treasury securities portfolio within the limits determined by the Board of Directors, Risk Management Group checks whether Treasury Department is within these risk limits.

Liquidity Risk is the risk that the Bank cannot fulfill its payment obligations fully and on time due to its insufficient cash inflow or due to inadequate available cash resulting from the mismatch between cash inflows and outflows. In order to define, measure, follow, report the liquidity risk the Bank is exposed to and take necessary actions for the results Liquidity Risk Policy format was prepared with an ongoing and forward-looking basis.

4. Financial risk management (continued)

Concentration risk is the risk within credit risk that is exposed according to individual debtor and debtor groups, to debtor groups that indicate similar characteristics in terms of economic and regional sector qualities, on the basis of the assets subject to the collateral securities similar to the risk that is to be considered also within the scope of the market risk and operational risk. In order to define, measure, follow and manage the concentration risk the Bank is exposed to, Concentration Risk Policy is formed. Concentration limits are monitored in compliance with the credit, deposit and related policies.

Counterparty credit risk refers to the default risk of the counterparty of the transaction before the last payment in the cash flow of this transaction of which brings an obligation to both sides. In order to define, measure, follow and manage the counterparty credit risk the Bank is exposed to Counterparty Credit Risk and Clearing Risk Policy is formed. Counterparty credit risk management is conducted by the Financial Institutions Department of the Bank by taking into account the counterparty's financial reports, general overview, rating, current and expected transaction volumes. The limits for counterparties are determined by the Board of Directors.

"Banking Book" includes all Assets and Liabilities (including credit) except trading securities portfolio. In order to define, measure, follow, report the interest rate risk related to banking book risk the Bank is exposed to and take necessary actions for the results, interest rate risk policy related to banking book is formed. Interest rate risk is managed by senior management in order to avoid losses from adverse interest rate movements.

Within internal capital management scope, the Bank has established a stress test based management by taking into account the estimated maximum loss amount that may occur in credit, operational, market and other risks as well as the changes in the market. Risk Management Procedure is formed in such a way that it includes all the definitions above.

Bank carries out risk mitigation processes and risk hedging for credit risk in accordance with credit risk policies. Risks related to market risk are measured and monitored in accordance with application procedures and policies. In this respect the limits are allocated by the Board of Directors. Limits are monitored, reported, in the event of any limit exceed it is reported to relevant committees and units through documentation by electronic mail. In addition, information about limits on use and loan segment concentration is presented to Audit Committee and the Board of Directors on quarterly.

A. Credit risk

Credit risk is the risk that the Bank is a party in a contract whereby the counterparty fails to meet its obligation and cause to incur a financial loss.

The credit allocation is performed on a debtor and a debtor group basis within the limits and updated on a defined frequency based on market developments. In the credit allocation process, many financial and non-financial criteria are taken into account within the framework of the internal rating procedures of the Bank. These criteria include geographical and sector concentrations. The sector concentrations for loans are monitored closely. In accordance with the Bank's loan policy, the rating of the companies, credit limits and guarantees are considered together, and credit risks incurred are monitored.

Risks and limits related to treasury activities and customer based commercial activities are monitored daily. Moreover, the limits of the correspondent banks that are determined by their ratings and the control of the maximum acceptable risk level in relation to the equity of the Bank are monitored daily. Risk limits are determined in connection with these daily transactions, and risk concentration is monitored systematically concerning off-balance sheet operations.

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

4. Financial risk management (continued)

Most of the statement of accounts for the loans has been tried to derive from audited financial statements. The unaudited documents result from the timing differences between the loan allocation and the audit dates of the financial statements of the companies and subsequently the audited financial statements are obtained from the companies when the companies are audited. Credit limits are determined according to the audited statement of accounts, and guarantee factors are developed in accordance with the decision of the credit committee considering the characteristics of the transactions and the financial structures of the companies.

For the forward transactions and other similar positions of the Bank, operational limits are set by the Board of Directors and the transactions take place within these limits.

The fulfillment of the benefits and acquirements related to forward transactions is normally realized at maturity. However, in order to minimize the risk, counter positions of existing risks are entered into in the market.

As of December 31, 2013 cash loans of the Bank from its top 100 and top 200 customers in the statement of financial position are TL 5.651.553 and TL 7.218.459 thousand,and their share in total cash loans are 50% and 64%, respectively.

As of December 31, 2013 total non- cash loans of the Bank from its top 100 and top 200 customers are TL 755.672 and TL 877.774 thousand,and their share in total non-cash loans are 80% and 93%.

<u>Bank ‘s rating system:</u>

As of December 31, 2013 internal credit rating system of the Bank is as follows:

Risk Class	Internal Rating Grade
High	
Risk rating class 1	1
Risk rating class 2	2
Good	
Risk rating class 3	3
Risk rating class 4	4
Standard	
Risk rating class 5	5
Risk rating class 6	6
Risk rating class 7	7
Risk rating class 8	8
Substandard	
Risk rating class 9	9
Risk rating class 10	10

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

4. Financial risk management (continued)

Internal credit rating system is used by the Bank. As a basis for the rating classification; financial data of customers has been processed by the MRA - Moody's Risk Analyst software and output rate is considered.
For sub-standard credit risk ratings, data complied on the basis of main collateral groups, are as follows:

- Risk rating class 9: The existing risk amount is TL 42.147 for 42 customers in this class. Distribution of the risk according to are; 29% mortgage and 4% cheques.

- Risk rating class 10: The existing risk amount is TL 5 for 2 customers in this class.

Watch list category is defined as the clients with payments past due 30 to 90 days and clients with "watch listing" request from credit monitoring department. As of December 31,2013 there are no loans and advances past due but not impaired which are classified under the performing loans (including past due watch-listed loans) .

As of 31 December 2013 details of collaterals obtained for loans and advances are as follows:

	2013	**2012**
Cash	273.229	165.000
Securities	-	174.351
Real estate	3.074.567	3.118
Other	111.755	-
Total	**3.459.551**	**342.469**

The Bank has adopted a policy of obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults.

Collaterals stated above table, are adjusted with the respect to the cash and non-cash risks of the borrower.

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

4. Financial risk management (continued)

Maximum exposure to credit risk

	2013	**2012**
Credit risk exposures relating to assets on-statement of financial position:		
Cash and balances with central banks	1.777.178	409.777
Due from banks	1.226.774	387.412
Money market placements	460.098	935.738
Loans and advances to customers	11.317.859	1.731.688
- Credit cards	49.358	-
- Consumer	690.512	4.677
- Corporate	5.122.932	926.127
- Commercial	5.455.057	800.884
Financial assets at fair value through profit or loss		
- Financial assets held for trading	2.610	-
- Derivative financial instruments	98.573	5.611
Investment securities	-	-
- Available-for-sale	942.532	78.132
- Held-to-maturity	-	-
Other assets	-	-
Credit risk exposures relating to off-balance sheet items:		
Bank acceptance loans	44.079	-
Letters of credit	146.013	13.940
Letter of guarantee	744.241	76.074
Other commitments	2.147.346	72.596

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

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

4. Financial risk management (continued)

Industry sectors

The Bank uses BRSA definitions for the economic sectors in order to be able to make comparisons with the banking sector wide figures. These definitions are also in line with NACE (European Classification of Economic Activities) classifications which are used within the EU. Through the credit policy, the Board of Directors sets the sectoral limits on lending, and these limits can only be altered by a decision from the Board of Directors. Sectoral classification is defined in terms of the borrower's activity area, not based on collaterals.

	Agriculture	Construction	Financial Institutions	Manufacturing	Wholesale and retail trade	Proffessional services	Individuals	Total
Cash and balances with central bank	-	-	1.777.178	-	-	-	-	1.777.178
Due from banks	-	-	1.686.872	-	-	-	-	1.686.872
Loans and advances to customers	224.436	2.841.754	392.629	2.635.117	1.747.712	2.719.370	756.841	11.317.859
Trading securities – debt securities	-	-	-	-	-	-	-	-
Derivative financial instruments	4.883	5.770	9.737	47.488	12.145	5.634	12.916	98.573
Financial assets at fair value through profit and loss	-	-	2.610	-	-	-	-	2.610
Investment securities – available for sale securities	-	-	942.532	-	-	-	-	942.532
As of December 31, 2013	**229.319**	**2.847.524**	**4.811.558**	**2.682.605**	**1.759.857**	**2.725.004**	**769.757**	**15.825.624**

(*) Consists of other intangible, property and equipment, deferred income tax and other assets.

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

4. Financial risk management (continued)

Sectoral risk breakdown of non-cash loans and irrevocable loan commitments (excluding forward asset sales and purchase commitments) of the Bank is as follows;

	December 31, 2013			
	TL	**(%)**	**FC**	**(%)**
Agricultural	15.705	2,52	1.347	0,43
Farming and raising livestock	15.705	2,52	1.347	0,43
Fores TL	-	-	-	-
Fishery	-	-	-	-
Manufacturing	88.803	14,26	91.625	29,40
Mining	2.012	0,32	2.725	0,87
Production	37.808	6,07	83.709	26,86
Electric, gas and water	48.983	7,87	5.191	1,67
Construction	299.603	48,11	46.673	14,98
Services	213.697	34,32	147.433	47,31
Wholesale and retail trade	133.944	21,51	47.863	15,36
Hotel, food and beverage services	583	0,09	3.196	1,03
Transportation and telecommunication	19.726	3,17	77.305	24,81
Financial institutions	2.117	0,34	-	-
Real estate and renting services	353	0,06	3.967	3.967
Self-employment services	-	-	-	-
Education services	48.475	7,78	14.059	4,51
Health and social services	8.499	1,36	1.043	0,33
Other	4.885	0,78	24.562	7,88
Total	**622.693**	**100,00**	**311.640**	**100,00**

Rating of debt securities:

	December 31, 2013		December 31, 2012	
Moody's credit rating model	**Trading securities**	**Investment Securities**	**Trading securities**	**Investment securities**
Financial assets:				
Aaa				
Aa	-	-	-	-
Aa1	-	-	-	-
Aa2	-	-	-	-
Aa3	-	-	-	-
A1	-	-	-	-
A2	-	-	-	-
A3	-	-	-	-
BBB	2.610	942.532	-	78.132
Baa	-	-	-	-
Baa1	-	-	-	-
Baa2	-	-	-	-
Baa3	-	-	-	-
Ba1	-	-	-	-
Ba2	-	-	-	-
Ba3	-	-	-	-
Ca	-	-	-	-
Unrated	-	-	-	-
Total	**2.610**	**942.532**	-	78.132

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

4. Financial risk management (continued)

B. Market risk

The Bank has defined market risk management operations and taken the necessary precautions in order to hedge market risk within its financial risk management purposes, in accordance with the Communiqué on "Measurement and Assessment of Capital Adequacy of Banks" which was published in the Official Gazette on June 28, 2012 numbered 28337and "Regulation Regarding Banks' Shareholders' Equity".

The Board of Directors determines the limits for the basic risk that the Bank is exposed to. Those limits are revised periodically in line with the market forces and strategies of the Bank. Additionally, the Board of Directors has ensured that the risk management division and senior management has taken necessary precautions to describe, evaluate, control and manage risks faced by the Bank.

Interest rate and exchange rate risks, arising from the volatility in the financial markets are measured, and in the computation of capital adequacy, the amount subject to risk calculated by using the standard is taken into consideration.

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

(a) Value-at-risk

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

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

Bank's VaR by risk type

	12 months to reporting date (2013)			12 months to reporting date (2012)		
	Average	**High**	**Low**	**Average**	**High**	**Low**
Foreign exchange risk	13.529	29.580	4.176	2.021	3.668	988
Interest rate risk of securities	7.154	15.505	3.392	944	1.767	327
Option risk	869	338	320	-	1	1
Counterparty risk	6.331	11.601	1.310	562	941	327
Total VaR	**27.883**	**57.024**	**9.198**	**3.527**	**6.377**	**1.643**

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

4. Financial risk management (continued)

(b) Stress tests

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

i) Foreign exchange risk

Foreign currency risk indicates the probability of loss that the Banks is subject to due to the exchange rate movements in the market. While calculating the share capital requirement, all foreign currency assets, liabilities and forward transactions of the Bank are taken into consideration and value at risk is calculated by using the standard method.

The Board of Directors sets limits for the positions and stop losses which are followed up daily and weekly. Any possible changes in the foreign currency transactions in the Bank's positions are also monitored.

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

December 31, 2013

	EUR	USD	Other	Foreign currency Total
Assets				
Cash and balances with central banks	14.709	1.649.294	509	1.664.512
Due from banks	262.171	353.138	18.928	634.237
Money market placements	-	-	-	-
Financial assets held for trading(**)	-	-	-	-
- Trading securities	-	-	-	-
- Derivative financial instruments	-	-	-	-
Loans and advances to customers(*)	1.641.199	3.764.415	-	5.405.614
Hedging derivatives	-	-	-	-
Investment securities	-	-	-	-
- Available-for-sale	-	-	-	-
- Held-to-maturity	-	-	-	-
Goodwill	-	-	-	-
Other intangible assets	-	-	-	-
Property and equipment	-	-	-	-
Deferred income tax assets	-	-	-	-
Other assets	32.848	70.395	-	103.243
Total assets	**1.950.927**	**5.837.242**	**19.437**	**7.807.606**
Liabilities				
Deposits from banks	-	-	-	-
Customer deposits	1.647.261	4.840.687	2.278	6.490.226
Debt securities and other funds borrowed	157.193	976.136	31.036	1.164.365
Subordinated Loans	-	639.209	-	639.209
Derivative financial instruments	-	-	-	-
Other liabilities	3.915	10.184	1	14.100
Total liabilities	**1.808.369**	**6.466.216**	**33.315**	**8.307.900**
Net balance sheet position	**142.558**	**(628.974)**	**(13.878)**	**(500.294)**
Off-balance sheet derivative instruments net notional position	9.428	459.431	14.163	483.022
Net foreign currency position	**151.986**	**(169.543)**	**285**	**(17.272)**

(*) Foreign currency indexed loans amounting to TL 1.030.053 are included in the FX loan portfolio.
(**) Derivative financial assets / liabilities were not included in within the net balance sheet position.

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

4. Financial risk management (continued)

December 31, 2012

	EUR	USD	Other	Foreign currency Total
Assets				
Cash and balances with central banks	1.019	136.868	17	137.904
Due from banks	59.097	80.842	4.458	144.397
Money market placements	-	-	-	-
Financial assets held for trading				
- Trading securities	-	-	-	-
- Derivative financial instruments	1.720	1.051	2	2.773
Loans and advances to customers	179.993	707.022	-	887.015
Hedging derivatives	-	-	-	-
Investment securities				
- Available-for-sale	-	-	-	-
- Held-to-maturity	-	-	-	-
Goodwill	-	-	-	-
Other intangible assets	-	-	-	-
Property and equipment	-	-	-	-
Deferred income tax assets	-	-	-	-
Other assets	255	1.062	-	1.317
Total assets	**242.084**	**926.845**	**4.477**	**1.173.406**
Liabilities				
Deposits from banks	-	-	-	-
Customer deposits	130.993	243.988	16	374.997
Debt securities and other funds borrowed	23.461	515.330	-	538.791
Derivative financial instruments	-	4.390	-	4.390
Current income taxes payable	-	-	-	-
Other liabilities	48	4.880	-	4.928
Total liabilities	**154.502**	**768.588**	**16**	**923.106**
Net balance sheet position	**87.582**	**158.257**	**4.461**	**250.300**
Off-balance sheet derivative instruments net notional position	(86.763)	(189.769)	(5.039)	(281.571)
Net foreign currency position	**819**	**(31.512)**	**(578)**	**(31.271)**

At December 31, 2013, assets and liabilities denominated in foreign currency were translated into TL using a foreign exchange rate of TL 2,1304 = USD 1, and TL 2,9344= EUR 1

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

Currency risk sensitivity:

The table below represents the sensitivity of the Bank to 10% change of currency exchange rates (USD and EUR). 10% change is the assumption of parity change that may be faced in a possible fluctuation used in the Bank's stress test scenarios.

	December 31, 2013		December 31, 2012	
Change in currency exchange rate	**Profit/loss and equity effect (1)**		**Profit/loss and equity effect (1)**	
	EUR	**USD**	**EUR**	**USD**
(+) 10%	15.199	(16.954)	82	3.151
(-) 10%	(15.199)	16.954	(82)	(3.151)

(1) Excluding tax effect.

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

4. Financial risk management (continued)

ii) Interest rate risk

Interest rate risk shows the probability of loss related to the changes in interest rates depending on the Bank's position, and it is managed by the Asset-Liability Committee. The interest rate sensitivity of assets, liabilities and off-balance sheet items related to this risk are measured by using the standard method and included in the market risk for capital adequacy.

Risk Management Group performs duration, maturity and sensitivity analysis to protect the effect of interest rate volatility and reported to the Asset-Liability Committee.

Simulations on interest income are performed in connection with the forecasted economic indicators used in the budget of the Bank. The negative effects of the fluctuations in the market interest rates on the financial position and the cash flows are minimized by revising budgeted targets.

The Bank management follows the market interest rates daily and revises the interest rates of the Bank whenever necessary.

Since the Bank monitors maturity mismatches very closely a significant interest rate risk exposure is not expected.

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

December 31, 2013	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with central banks	-	-	-	-	1.777.178	1.777.178
Due from banks	849.591	-	-	-	377.183	1.226.774
Money market placements	460.098	-	-	-	-	460.098
Financial assets at fair value through profit or loss	11.878	56.437	29.518	3.350	-	101.183
Loans and advances to customers	3.194.271	3.268.551	3.480.343	1.363.877	10.817	11.317.859
Hedging derivatives	-	-	-	-	-	-
Investment securities						
- Available-for-sale	328.774	433.278	180.480	-	-	942.532
- Held-to-maturity	-	-	-	-	-	-
Goodwill	-	-	-	-	-	-
Other intangible assets	-	-	-	-	48.246	48.246
Property and equipment	-	-	-	-	104.438	104.438
Deferred income tax assets	-	-	-	-	23.452	23.452
Other assets	-	-	-	-	86.628	86.628
Total assets	**4.844.612**	**3.758.266**	**3.690.341**	**1.367.227**	**2.427.942**	**16.088.388**
Liabilities						
Deposits from banks	-	-	-	-	-	-
Customer deposits	11.756.493	116.692	24	-	498.749	12.371.958
Funds obtained under repurchase agreements	221.454	-	-	-	-	221.454
Debt securities and other funds borrowed	709.348	351.320	-	745.914	-	1.806.582
Derivative financial instruments	31.974	46.005	25.376	-	-	103.355
Current income taxes payable	-	-	-	-	-	-
Other liabilities and equity	-	-	-	-	1.585.039	1.585.039
Total liabilities and equity	**12.719.269**	**514.017**	**25.400**	**745.914**	**2.083.788**	**16.088.388**
Net interest repricing gap	**(7.874.657)**	**3.244.249**	**3.664.941**	**621.313**	**344.154**	**-**
Off-balance sheet derivative instruments long position	2.815.383	1.885.109	782.813	40.045	-	5.523.350
Off-balance sheet derivative Instruments short position	(2.833.569)	(1.871.921)	(783.436)	(40.045)	-	(5.528.971)

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

4. Financial risk management (continued)

December 31, 2012	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Non-interest bearing	Total
Assets						
Cash and balances with central banks	230.032	-	-	-	179.745	409.777
Due from banks	319.760	-	-	-	67.652	387.412
Money market placements	935.738	-	-	-	-	935.738
Financial assets held for trading						
- Trading securities	-	-	-	-	-	-
- Derivative financial instruments	2.652	2.794	92	73	-	5.611
Loans and advances to customers	528.121	751.578	365.120	86.869	-	1.731.688
Hedging derivatives	-	-	-	-	-	-
Investment securities						
- Available-for-sale	-	78.132	-	-	-	78.132
- Held-to-maturity	-	-	-	-	-	-
Goodwill	-	-	-	-	-	-
Other intangible assets	-	-	-	-	17.790	17.790
Property and equipment	-	-	-	-	41.342	41.342
Deferred income tax assets	-	-	-	-	1.677	1.677
Other assets	-	-	-	-	25.012	25.012
Total assets	**2.016.303**	**832.504**	**365.212**	**86.942**	**333.218**	**3.634.179**
Liabilities						
Deposits from banks	-	-	-	-	-	-
Customer deposits	1.817.291	556.213	5.779	-	137.863	2.517.146
Funds obtained under repurchase agreements	221.454					
Debt securities and other funds borrowed	281.351	79.591	-	177.849	-	538.791
Derivative financial instruments	3.212	1.178	-	-	-	4.390
Current income taxes payable	-	-	-	-	1.149	1.149
Other liabilities and equity	-	-	-	-	572.703	572.703
Total liabilities and equity	**2.101.854**	**636.982**	**5.779**	**177.849**	**711.715**	**3.634.179**
Net interest repricing gap	**(85.551)**	**195.522**	**359.433**	**(90.907)**	**(378.497)**	**-**
Off-balance sheet derivative instruments long position	325.733	325.210	17.797	17.776	-	686.586
Off-balance sheet derivative Instruments short position	326.228	264.523	3.555	-	-	594.306

The interest rate risk for all on-balance sheet and off-balance sheet items, which are interest sensitive, and for banking accounts has been calculated. In calculation of interest rate risk, the Bank has not made any assumptions for early repayment of loans and demand deposits.

Below table summarizes the economic value differences resulting from interest rate volatility calculated according to the Regulation on Measurement and Evolution of Interest Rate Risk Resulted from Banking Book as per Standard Shock Method of BRSA. As of 31 December 2013, 500 bp/400 bp shock and 200bp shock are applied for Turkish Lira and foreign currency, respectively for the assessment of the changes in the fair value of balance sheet items which are subject to calculation.

Unit of Currency	Applicable Shock (+ / - base point)*	Profit/ Loss	Profit / Equity Capital – Loss / Equity Capital
TL	500	(273.901)	(14,07)%
	(400)	261.508	13,43%
EUR	200	(19.940)	(1,02)%
	(200)	6.516	0,33%
USD	200	42.751	2,20%
	(200)	(81.239)	(4,17)%
Total (For Positive Shock)		(251.090)	(12,90)%
Total (For Negative Shock)		186.785	9,59%

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

4. Financial risk management (continued)

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

	December 31, 2013			
	EUR (%)	**USD (%)**	**YEN(%)**	**TL (%)**
Assets				
Cash and balances with central banks				
Due from banks	0,29	0,23	-	7,57
Financial Assets at Fair Value Through Profit and Loss	-	-	-	9,58
Money Market Placements	-	-	-	7,74
Investment securities				
- Available-for-sale	-	-	-	7,41
- Held-to-maturity	-	-	-	-
Loans and advances to customers	5,32	5,60	-	11,87
Liabilities				
Customer deposits	3,25	3,40	-	9,09
Money Market Borrowings	-	-	-	4,50
Subordinated Loans	-	5,00	-	-
Debt securities and other funds borrowed	2,01	3,18	-	5,23

C. Liquidity risk

Liquidity risk occurs when there is insufficient cash or cash inflows to meet the cash outflows completely and timely.

Liquidity risk may also occur when the market penetration is not adequate, when the open positions cannot be closed quickly at suitable prices and sufficient amounts due to barriers and break-ups at the markets.

The Bank’s policy is to establish an asset structure that can meet all kinds of liabilities by liquid sources at all times. In order to maintain this, the Board of Directors of the Bank continuously determines standards for the liquidity ratios, and monitors them.

According to the general policies of the Bank, the maturity and interest rate structure of assets, and liabilities is always monitored. A positive difference is tried to be established between the yields of assets and liabilities on the balance sheet and their costs. In this sense, various crisis scenarios which are prepared by Risk Management Group are presented to Senior Management and Audit Committee.

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

4. Financial risk management (continued)

When the funding and liquidity sources are considered, the Bank covers majority of its liquidity need by deposits, and in addition to this source, it makes use of pre-financing and syndication products to generate additional sources.

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

December 31, 2013[(1)]

	Demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Liabilities						
Deposits from banks	-	-	-	-	-	-
Customer deposits	498.749	11.756.493	116.692	24	-	12.371.958
Debt securities and other funds borrowed	-	719.150	1.126.245	-	960.591	2.805.986
Total liabilities	**498.749**	**12.475.643**	**1.242.937**	**24**	**960.591**	**15.177.944**

December 31, 2012[(1)]

	Demand	Up to 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Liabilities						
Deposits from banks	-	-	-	-	-	-
Customer deposits	137.863	1.463.988	940.817	10.176	-	2.552.844
Debt securities and other funds borrowed	-	94.983	267.038	-	239.131	601.152
Total liabilities	**137.863**	**1.558.971**	**1.207.855**	**10.176**	**239.131**	**3.153.996**

(1) Maturities of non-cash loans are described in Note 25.

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

4. Financial risk management (continued)

D. Operational risk

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

For regulatory purposes and consideration in statutory capital adequacy ratio, the Bank calculates the amount subject to operational risk with the basic indicator method in accordance with Section 4 of the "Regulation Regarding Measurement and Evaluation of Banks' Capital Adequacy Ratio" published in the Official Gazette No. 28337 dated June 28, 2012.

The value at operational risk is calculated according to the basic indicator approach of "Regulation regarding Measurement and Assessment of Capital Adequacy Ratios of Banks" published in the Official Gazette No. 28337 dated June 28, 2012.

	2 PY Amount	1 PY Amount	CY Amount	Total / Total number of years for which gross income is positive	Rate (%)	Total
Gross income	-	-	61.830	61.830	15	9.275
The amount subject to operational risk (Total*12,5)(*)					-	115.938

(*) With the approval of BRSA dated November 19, 2012 and numbered 23254, the Bank did not calculate the amount subject to operational risk for interim periods of the year 2012.

E. Capital management

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

A bank's capital adequacy ratio is calculated by taking the aggregate of its Tier I capital (which comprises paid-in capital, reserves, retained earnings and profit for the current periods minus period loss (if any)) its Tier II capital (which comprises general loan and free reserves, revaluation funds and subordinated loans obtained) and its Tier III capital (which comprises certain qualified subordinated loans in accordance with BIS 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 8%.

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

4. Financial risk management (continued)

The Bank's regulatory capital adequacy position at December 31, 2013 was as follows:

	December 31, 2013	December 31, 2012
Capital Requirement for Credit Risk (Value at Credit Risk*0.08) (CRCR)	966.558	146.393
Capital requirement for market risk (II) (Value at Market Risk*0.08) (MRCR)	21.814	2.668
Capital requirement for operational risk (III) (ORCR)	9.275	-
Shareholders' Equity[(1)]	1.946.925	678.578
Shareholders' Equity/((CRCR+MRCR+ORCR) * 12.5) * 100	**15,61**	**36,42**

(1) On December 27, 2012 the Bank obtained a subordinated loan from Parent Bank - Bank Audi s.a.l. amounting to USD 100 million, with 10 years maturity and a repayment option at the end of five years. The interest rate was determined 3% for the first five years (if repayment option is not used interest rate will be 4%). With the written approval of BRSA dated 25 December 2012, the loan has been booked as subordinated loan. Besides, on September 24, 2013 the Bank obtained another subordinated loan from Parent Bank - Bank Audi s.a.l amounting to USD 200 million, with 10 years maturity and a repayment option at the end of five years. The interest rate was determined 6%. With the written approval of BRSA dated September 20, 2013, the loan has been approved as subordinated loan and was taken into consideration as supplementary capital within the limits of the Regulation Regarding Banks' Shareholders' Equity.

F. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (ie an exit price). The estimated fair values of financial instruments have been determined by the Bank 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 Bank could realise in a current market exchange.

The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's consolidated balance sheets at their fair values at 31 December 2013 and 2012:

	December 31, 2013		December 31, 2012	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:	**13.004.731**	**12.721.929**	**3.054.838**	**3.054.838**
Due from banks and money market placements	1.686.872	1.686.872	1.323.150	1.323.150
Loans and advances to customers	11.317.859	11.035.057	1.731.688	1.731.688
Financial liabilities:	**14.399.994**	**14.339.073**	**3.055.937**	**3.055.937**
Deposits from banks	-	-	-	-
Customer deposits	12.371.958	12.394.422	2.517.146	2.517.146
Debt securities, repurchase agreements and other funds borrowed	2.028.036	1.944.651	538.791	538.791

4. Financial risk management (continued)

The following methods and assumptions were used to estimate the fair value of the financial instruments:

i. Financial assets:

Money market placements and banks are carried at amortised cost values on the face of the financial statements and due to their short term nature, their fair values are considered to approximate their respective carrying values. The discount rate used to calculate the fair value of loans and receivables as of December 31, 2013 is the current market rates available for the loan and security types with similar currency and maturity. Credit risk is not considered in estimating the fair value of loans.

ii. Financial liabilities:

The discount rate used to calculate the fair value of deposits and funds borrowed as of December 31, 2013 is the current market rates available for the borrowing and deposits types with similar currency and maturity.

Determination of fair value and fair value hierarchy:

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank’s market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

Level 3- Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

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

4. Financial risk management (continued)

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

Assets and liabilities measured at fair value

December 31, 2013	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
- Debt securities	2.610	-	-	2.610
- Equity securities	-	-	-	-
- Derivatives	-	98.573	-	98.573
Available-for-sale financial assets				
- Investments securities - debt	942.532	-	-	942.532
- Investments securities - equity	-	-	-	-
Total assets	**945.142**	**98.573**		**1.043.715**
Financial liabilities at fair value through profit or loss				
- Derivatives	-	103.355	-	103.355
Total liabilities		**103.355**		**103.355**

December 31, 2012	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
- Debt securities	-	-	-	-
- Equity securities	-	-	-	-
- Derivatives	-	5.611	-	5.611
Available-for-sale financial assets				
- Investments securities - debt	78.132	-	-	78.132
- Investments securities - equity	-	-	-	-
Total assets	**78.132**	**941.349**	**-**	**1.019.481**
Financial liabilities at fair value through profit or loss				
- Derivatives	-	4.390	-	4.390
Total liabilities	**-**	**4.390**	**-**	**4.390**

There are no transfers between the first and the second levels in the current year.

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

5. Cash and balances with central banks.

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

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

	December 31, 2013	December 31, 2012
Cash and cash equivalents	78.456	6.181
Current account balances with the Central Bank	80.082	268.608
Loans and advances to banks,excluding accrued interest (with original maturity less than 90 days) (included in due from banks),	1.149.396	387.372
Reverse repos,excluding accrued interest (included in due from banks)	460.000	935.000
Total	**1.767.934**	**1.597.161**

Balances with the Central Bank of Turkey:

	December 31, 2013	December 31, 2012
TL	79.566	268.487
Foreign currency	1.619.155	135.109
Total	**1.698.721**	**403.596**

The reserve requirements are promulgated by communiqués issued by the Central Bank of Turkey (“the Central Bank”).

The amounts of the reserve requirements are computed on the basis of the liabilities identified and at the rates prescribed in the related regulations. The reserve rates for TL liabilities vary between 5% and 11,5% for TL deposits and other liabilities according to their maturities as of 31 December 2013. The reserve rates for foreign currency liabilities vary between 6% and 13% for deposit and other foreign currency liabilities according to their maturities as of 31 December 2013. As of December 31,2013 reserve deposits at the Central Banks is TL 1,618,640 (December 31, 2012: 134,956).

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

6. Due from banks

			December 31, 2013
	Domestic	**Foreign**	**Total**
TL:			
Nostro/ demand deposits	-	-	-
Time deposits	515.270	-	515.270
Interbank money market and reverse repo	460.098	-	460.098
Total	**975.368**	**-**	**975.368**
Foreign currency:			
Nostro/ demand deposits (*)	-	377.066	377.066
Time deposits	334.438	-	334.438
Total	**334.438**	**377.066**	**711.504**

(*) As of December 31, 2013, nostro/ demand deposits includes collaterals amounting to TL 77.223 given to the foreign banks for the derivative transactions.

			December 31, 2012
	Domestic	**Foreign**	**Total**
TL:			
Nostro/ demand deposits	36	-	36
Time deposits	242.979	-	242.979
Interbank money market and reverse repo	935.738	-	935.738
Total	**1.178.753**	**-**	**1.178.753**
Foreign currency:			
Nostro/ demand deposits	-	67.075	67.075
Time deposits	77.322	-	77.322
Total	**77.322**	**67.075**	**144.397**

7. Financial assets at fair value though profit or loss

	December 31, 2013	**December 31, 2012**
Derivative financial instruments	98.573	5.611
Financial assets held for trading	2.610	-
Total financial assets held for trading	**101.183**	**5.611**

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

8. Derivative financial instruments

The Bank 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 Bank 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 Bank'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.

"Options" are contractual agreements that convey the right to the buyer and the obligations to the writer to buy or sell an asset at a specified price either at a fixed future date or at any time within a specified period. Major part of the Bank's option book activity stems from the clients' needs; therefore to meet the client demands Bank actively runs an option book on the residual open positions which are not fully covered.

December 31, 2013

	Contract/ notional amount (aggregate of buy and sell)	Fair values Assets	Fair values Liabilities
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	947.036	14.440	6.654
Currency swaps	2.850.559	7.574	42.993
Currency options	5.746.368	72.515	52.655
Total foreign exchange derivatives	**9.543.963**	**94.529**	**102.302**
Interest rate derivatives:			
Interest rate swaps	1.508.360	4.044	1.053
Total interest rate derivatives	**1.508.360**	**4.044**	**1.053**
Other derivatives	**-**	**-**	**-**
Total derivative assets/ (liabilities) held for trading	**11.052.323**	**98.573**	**103.355**

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

8. Derivative financial instruments (continued)

December 31, 2012

	Contract/ notional amount (aggregate of buy and sell)	Fair values Assets	Fair values Liabilities
Derivatives held for trading			
Foreign exchange derivatives:			
Currency forwards	173.731	1.702	2.073
Currency swaps	771.916	3.227	1.669
Currency options	244.176	521	648
Total foreign exchange derivatives	**1.189.823**	**5.450**	**4.390**
Interest rate derivatives:			
Interest rate swaps	91.000	161	-
Total interest rate derivatives	**91.000**	**161**	**-**
Other derivatives	**-**	**-**	**-**
Total derivative assets/(liabilities) held for trading	**1.280.823**	**5.611**	**4.390**

9. Loans and advances to customers

December 31, 2013

	Corporate	Commercial	Consumer	Total
Performing loans	5.106.715	5.408.766	734.211	11.249.692
Watch listed loans	26.228	22.032	9.090	57.350
Impaired loans	-	44.427	1.759	46.186
Loan Loss Provision	(10.010)	(20.168)	(5.191)	(35.369)
Gross	**5.122.933**	**5.455.057**	**739.869**	**11.317.859**
Specific allowance for impairment	-	9.314	394	9.708
Collective allowance for impairment	10.010	10.854	4.797	25.661
Total allowance for impairment	**10.010**	**20.168**	**5.191**	**35.369**
Net	**5.122.933**	**5.455.057**	**739.869**	**11.317.859**

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

9. Loans and advances to customers (continued)

December 31, 2012

	Corporate	Commercial	Consumer	Total
Performing loans	926.127	800.884	4.677	1.731.688
Watch listed loans	-	-	-	-
Loans under legal follow - up	-	-	-	-
Gross	**926.127**	**800.884**	**4.677**	**1.731.688**
Specific allowance for impairment	-	-	-	-
Collective allowance for impairment	-	-	-	-
Total allowance for impairment (*)	**-**	**-**	**-**	**-**
Net	**926.127**	**800.884**	**4.677**	**1.731.688**

(*) The Bank has started to grant loans to its customers since October 2012. According to aging analysis of customers, as of December 31, 2012 the Bank has no nonperforming loan customer. Accordingly there is no specific provision provided in financial statements. At the reporting date December 31, 2012, The Bank did not provide collective provision as the portfolio did not have any historical performance to be assessed.

Loans and advances to the public sector and private sector are as follows:

	December 31, 2013	December 31, 2012
Public sector	-	-
Private sector	11.317.859	1.731.688
Total	**11.317.859**	**1.731.688**

Movements in the provision for loan losses are as follows:

	December 31, 2013	December 31, 2012
1 January 2013	-	-
Additions	35.369	-
Collections	-	-
Write-offs	-	-
Total	**35.369**	**-**

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

10. Investment securities

Securities available-for-sale

	December 31, 2013	December 31, 2012
Debt securities - at fair value:		
Government bonds and treasury bills	942.532	78.132
Eurobonds	-	-
Equity securities - at fair value	-	-
Listed	-	-
Unlisted	-	-
Total securities available-for-sale	**942.532**	**78.132**

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

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

	December 31, 2013	December 31, 2012
At January 1	**78.132**	**-**
Additions	924.997	78.132
Disposals / redemption	(78.132)	-
Interest accruals and changes in fair value	17.535	-
At December 31	**942.532**	**78.132**

11. Other intangible assets

	December 31, 2013	December 31, 2012
Cost	56.303	18.908
Accumulated amortization	8.057	1.118
Net book amount	**48.246**	**17.790**

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

11. Other intangible assets (continued)

Movements of other intangible assets were as follows:

December 31, 2013	Rights and licenses	Software	Total
Cost			
At January 1	**1.118**	**17.790**	**18.908**
Additions	11	37.384	37.395
At December 31	**1.129**	**55.174**	**56.303**
Accumulated amortization			
At January 1	37	1.081	1.118
Amortization charge (Note 24)	70	6.869	6.939
At December 31	**107**	**7.950**	**8.057**
Net book amount at December 31	**1.022**	**47.224**	**48.246**

December 31, 2012	Rights and licenses	Software	Total
Cost			
At January 1	-	-	-
Additions	1.118	17.790	18.908
At December 31	**1.118**	**17.790**	**18.908**
Accumulated amortization			
At January 1	-	-	-
Amortization charge (Note 24)	37	1.081	1.118
At December 31	**37**	**1.081**	1.118
Net book amount at December 31	**1.081**	**16.709**	**17.790**

12. Property and equipment

	December 31, 2013	December 31, 2012
Cost	56.303	43.901
Accumulated depreciation and impairment	(8.057)	(2.559)
Net book amount	**48.246**	**41.342**

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

12. Property and equipment (continued)

December 31, 2013	Land and buildings	Office equipment	Furniture and fixtures, vehicles and other	Leasehold improvements	Total
Cost					
At January 1	9.174	15.262	5.454	14.011	43.901
Additions	-	27.308	8.060	38.527	73.895
At December 31	**9.174**	**42.570**	**13.514**	**52.538**	**117.796**
Accumulated depreciation and impairment					
At January 1	(31)	(1.987)	(226)	(315)	(2.559)
Depreciation charge (Note 24)	(183)	(4.973)	(1.816)	(3.827)	(10.799)
At December 31	**(214)**	**(6.960)**	**(2.042)**	**(4.142)**	**(13.358)**
Net book amount at December 31	**8.960**	**35.610**	**11.472**	**48.396**	**104.438**

December 31, 2012	Land and buildings	Office equipments	Furniture and fixtures, vehicles and other	Leasehold improvements	Total
Cost					
At January 1	**-**	**-**	**-**	**-**	**-**
Additions	9.174	15.262	5.454	14.011	43.901
At December 31	**9.174**	**15.262**	**5.454**	**14.011**	**43.901**
Accumulated depreciation and impairment					
At January 1	**-**	**-**	**-**	**-**	**-**
Depreciation charge (Note 24)	(31)	(1.987)	(226)	(315)	(2.559)
At December 31	**(31)**	**(1.987)**	**(226)**	**(315)**	**(2.559)**
Net book amount at December 31	**9.143**	**13.275**	**5.228**	**13.696**	**41.342**

13. Other assets

	December 31, 2013	December 31, 2012
Settlement accounts	25.942	2.226
Prepaid expenses (*)	21.248	10.595
Advances and deposits given	25.785	6.768
Tax regularization accounts	11.834	5.423
Others	1.819	-
	86.628	**25.012**

(*) Prepaid expenses mainly constitute branch rent expenses, health insurance expenses.

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

14. Customer deposits

	December 31, 2013			December 31, 2012		
	Demand	**Term**	**Total**	**Demand**	**Term**	**Total**
Foreign currency deposits:						
Saving deposits	277.774	2.058.353	2.336.127	3.736	97.482	101.218
Corporate and commercial deposits	12.183	3.857.552	3.869.735	81.115	192.665	273.780
	289.957	**5.915.905**	**6.205.862**	**84.851**	**290.147**	**374.998**
TL deposits:						
Saving deposits	35.304	3.877.790	3.913.094	4.075	1.344.672	1.348.747
Corporate and commercial deposits	166.828	1.490.202	1.657.030	48.938	744.463	793.401
Public sector deposits	6.130	3.340	9.470	-	-	-
Other Deposits	530	585.972	586.502	-	-	-
Total	**208.792**	**5.957.304**	**6.166.096**	**53.013**	**2.089.135**	**2.142.148**
Grand Total	**498.749**	**11.873.209**	**12.371.958**	**137.864**	**2.379.282**	**2.517.146**

15. Debt securities and other funds borrowed

	December 31, 2013	December 31, 2012
Foreign institutions and banks		
Subordinated loan	639.209	177.849
Other funds borrowed	1.167.373	360.942
Total foreign	**1.806.582**	**538.791**
Total domestic	**-**	**-**

On December 27, 2012 the Bank obtained a subordinated loan from Parent Bank - Bank Audi s.a.l amounting to USD 100 million, with 10 years maturity and a repayment option at the end of five years. The interest rate was determined 3% for the first five years (if repayment option is not used interest rate will be 4%).

Besides, on September 24, 2013 the Bank obtained a subordinated loan from Parent Bank - Bank Audi s.a.l amounting to USD 200 million, with 10 years maturity and a repayment option at the end of five years. The interest rate was determined 6%.

As of December 31, 2013, the Bank has also Funds provided under repurchase agreements amounting to TL 221.454 (December 31, 2012: None).

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

16. Taxation

	December 31, 2013	December 31, 2012
Current tax income/expense	1.483	(1.516)
Deferred tax income	19.672	1.677
Tax income/(expense)	**21.155**	**161**
Income taxes currently payable	-	2.632
Prepaid taxes	-	(1.483)
Income taxes payable	**-**	**1.149**

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

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

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

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

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

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

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

16. Taxation (continued)

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

	December 31, 2013	December 31, 2012
Profit/(loss) before income taxes	**(106.111)**	**(1.245)**
Theoretical income tax at the applicable tax rate of 20%	(21.222)	(249)
Effect of different tax rates in other countries	-	-
Non-taxable consolidation adjustments	-	-
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income exempt from taxation	14.650	(335)
- Non-deductible expenses for tax purposes	(14.583)	247
Tax income/(expense)	**21.155**	**161**

Deferred income taxes

For the Bank, deferred income taxes are calculated on temporary differences that are expected to be realized or settled under the liability method using a principal tax rate of 20% at December 31, 2013.

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

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

	Cumulative Temporary Differences	Deferred Tax Asset/ Liability	Cumulative Temporary Differences	Deferred Tax Asset/ Liability
	December 31, 2013	December 31, 2013	December 31, 2012	December 31, 2012
Allowance for unused vacation and other short term employee benefits	28.143	5.629	14.909	2.982
Net Book Value and Tax Value Differences of Financial Assets and derivative financial liabilities	119.165	23.833	4.390	878
Deferred Commissions	34.128	6.826	-	-
Tax Losses	27.982	5.596	-	-
Collective Provisions	25.661	5.132	-	-
Other	4.160	832	1.276	255
Deferred income tax assets	**239.239**	**47.848**	**20.575**	**4.115**
Net Book Value and Tax Value Differences of derivative financial assets	98.573	19.715	5.611	1.122
Difference between carrying value and tax base of property and equipment	23.238	4.648	6.580	1.316
Other	167	33	-	-
Deferred income tax liabilities	**121.978**	**24.396**	**12.191**	**2.438**
Deferred income tax assets, net	**117.261**	**23.452**	**8.384**	**1.677**

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

16. Taxation (continued)

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

	December 31, 2013	December 31, 2012
Balance at January 1	**1.677**	**-**
(Charge) / credit for the year, net	19.672	1.677
Available-for-sale revaluation reserve	2.103	-
Balance at December 31	**23.452**	**1.677**

There are no deductible temporary differences for which no deferred tax asset is recognized in the statement of financial position.

Income tax effects relating to components of other comprehensive income

	December 31, 2013		
	Before tax amount	**Tax (expense) benefit**	**Net-of tax amount**
Fair value gains on available-for- sale financial assets	(10.516)	2.103	(8.413)
Other comprehensive income/(loss) for the year (net presentation)	**(10.516)**	**2.103**	**(8.413)**

	December 31, 2012		
	Before tax amount	**Tax (expense) benefit**	**Net-of tax amount**
Fair value gains on available-for- sale financial assets	(166)	33	(133)
Other comprehensive income/(loss) for the year (net presentation)	**(166)**	**33**	**(133)**

17. Employee benefit obligations

	December 31, 2013	December 31, 2012
Employee termination benefit provision	905	-
Unused vacation provision	2.238	859
Personnel premium	25.000	14.050
Total of provision for employee benefits	**28.143**	**14.909**

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

17. Employee benefit obligations (continued)

Reserve for employment termination benefits

Under the Turkish Labour Law, theBank is required to pay termination benefits to each employee who has completed at least one year of service and whose employment is terminated without due cause, is called up for military service, who dies or retires after completing 25 years of service (20 years for women) and achieves the retirement age (58 for women and 60 for men). Since the legislation was changed on 23 May 2002, there are certain transitional provisions relating to length of service prior to retirement.

In Turkey, such payments are calculated on the basis of 30 days' pay (limited to a maximum of TL 3.43 and TL 3.03 at 31 December 2013 and 2012, respectively) per year of employment at the rate of pay applicable at the date of retirement or termination. In the financial statement as at 31 December 2013, the Bank reflected a liability based upon factors derived using their experience of personnel terminating their services and being eligible to receive retirement pay and discounted by using the current market yield on government bonds at the date of financial position.

The principal actuarial assumptions used at the dates of financial position are as follows:

	December 31, 2013	December 31, 2012
Discount rate	11.00	-
Expected rates of salary/limit increases	6,50	-

18. Other liabilities and accrued expenses

	December 31, 2013	December 31, 2012
Social security duties	1.673	650
Miscellaneous payables	131.019	22.666
Taxes Payable	22.640	2.175
Reserve for employee benefits (Note 17)	28.143	14.909
Total	**183.475**	**40.400**

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

19. Share capital

As of December 31,2013 the historic amount of paid-in share capital of the Bank consists of 14.961.500.000 authorized shares with a nominal value of TL 0,10 each.

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

	December 31, 2013		December 31, 2012	
Shareholders	**Participation rate (%)**	**TL**	**Participation rate (%)**	**TL**
Audi s.a.l.	93,827	1.403.787	82,688	441.157
Audi Saradar Private Bank s.a.l.	6,062	90.698	17,000	90.698
Raymond W. AUDI	0,037	555	0,104	555
Samir N. HANNA	0,037	555	0,104	555
Freddie C. BAZ	0,037	555	0,104	555
Historical share capital	**100,00**	**1.496.150**	**100,00**	**533.520**
Total share capital	**100,00**	**1.496.150**	**100,00**	**533.520**

With the permission of BRSA dated June 21, 2013 and numbered 20008792.84.1-15704, the Bank's paid in capital has increased to 1.086.510 TL and with the permission of BRSA December 19, 2013 and numbered 20008792.84.1-31580, the Bank's paid in capital has increased to 1.496.150 TL in the form of cash injection.

20. Retained earnings and other reserves

	December 31, 2013	December 31, 2012
Statutory reserve	-	-
Revaluation reserve - available-for-sale investments	(8.546)	(133)
Total other reserves	(8.546)	(133)

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

a) First legal 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 legal 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.

Under the TCC, the legal reserves can only be used to offset losses and are not available for any other usage unless the reserve exceeds 50% of paid-in share capital.

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

21. Net interest income

	December 31, 2013	December 31, 2012
Interest income on:		
Loans and advances:	538.418	42.516
- to banks	14.972	31.302
- to customers	523.446	11.214
Investment securities	48.949	482
Trading securities	6.554	122
Reverse repos	78.235	1.025
Interest income on swap transactions	39.214	-
Total interest income	**711.370**	**44.145**
Interest expense on:		
Due to customers	499.507	12.196
Funds borrowed	35.373	322
Interest expense on swap transactions	6.368	-
Total interest expense	**(541.248)**	**(12.518)**
Net interest income	**170.122**	**31.627**

22. Net fee and commission income

	December 31, 2013	December 31, 2012
Fee and commission income on:		
General banking income	3.063	28
Credit Related fees and commissions	2.748	159
Brokerage and Custody Income	69	-
Trade Finance Income	6.769	80
Other	2.545	5.140
Total fee and commission income	**15.194**	**5.407**
Fee and commission expense on:		
Other	(7.519)	(127)
Total fee and commission expense	**(7.519)**	**(127)**
Net fee and commission income	**7.675**	**5.280**

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

23. Net trading and fair value income and net gains / losses from investment securities

	December 31, 2013	**December 31, 2012**
Gains/losses from derivatives, net	44.052	2.875
Foreign exchange gains/losses, net (*)	(34.678)	21.742
Treasury Bills and Bonds	1.080	305
	10.454	**24.922**

(*) Foreign exchange net trading income includes gains and losses from spot and forward contracts, options and translated foreign currency assets and liabilities.

24. Other operating expenses

	December 31, 2013	**December 31, 2012**
Personnel expenses	93.549	27.461
Unused vacation provision	1.379	859
Taxes and duties	-	1.768
Depreciation expenses of fixed assets	10.798	2.559
Amortization expenses of intangible assets	6.939	1.118
Other operating expenses	120.440	13.017
Operating lease expenses	23.151	3.839
Maintenance expenses	309	86
Advertisement expenses	35.349	1.041
Other expenses(*)	61.631	8.051
Loss on sales of assets	-	-
Other(**)	25.905	16.292
Total	**259.010**	**63.074**

(*) As of December 31, 2013, other operating expenses mainly consist of TL 13.086 information technologies expenses and TL 13.954 audit and advisory expenses and others.

(**) As of December 31, 2013, other expenses consist of bonus provision expenses amounting to TL 25.905 (31 December 2012: TL 14.050).

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

25. Commitments and contingent liabilities

In the normal course of its activities, the Bank 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

As of balance sheet date, there is no case filed against to the Bank where the Bank is assessing as probable to lose.

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 Bank 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 Bank on behalf of a customer authorizing a third party to draw drafts on the Bank 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.

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

December 31, 2013(*)	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	-	146.013	-	-	146.013
Letter of guarantees	-	744.241	-	-	744.241
Acceptance credits	-	44.079	-	-	44.079
Other commitments	-	-	-	-	-
Total	**-**	**934.333**	**-**	**-**	**934.333**

December 31, 2012(*)	Indefinite	Not later than 1 year	1-5 years	Over 5 years	Total
Letter of credits	-	13.940	-	-	13.940
Letter of guarantees	-	76.074	-	-	76.074
Acceptance credits	-	-	-	-	-
Other commitments	-	-	-	-	-
Total	**-**	**90.014**	**-**	**-**	**90.014**

(*) Based on original maturities.

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

26. 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 Bank is controlled by Bank Audi / Audi Saradar Group.

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

(i) Balances with related parties:

	December 31, 2013	December 31, 2012
Other related parties		
Deposits	343.965	9.109
Direct and indirect shareholders of the Bank		
Debt securities and other funds borrowed	852.249	355.679
Total liabilities	**1.196.214**	**364.788**
Direct and indirect shareholders of the Bank		
Commitment under derivative instruments	-	821.874
Credit related commitments	16.119	11.000
Total commitments and contingent liabilities	**16.119**	**832.874**

(ii) Transactions with related parties:

	December 31, 2013	December 31, 2012
Total interest and fee income		-
Interest expense on deposits	856	69
Interest expense onderivative transactions	-	3.018
Interest expense on debt securities and other funds borrowed	14.481	319
Total interest and fee expense	**14.481**	**319**

(iii) Balances with directors and other key management personnel:

Gross payment made to the executive management for the year ended December 31, 2013 is TL 13.353.

27. Subsequent events

None.